

THE *Cuk-Hed-21-10/45/1*

ACCOUNTANT

ESTABLISHED 1874

REGISTERED AS A NEWSPAPER

THE RECOGNIZED WEEKLY ORGAN FOR CHARTERED ACCOUNTANTS
AND ACCOUNTANCY THROUGHOUT THE WORLD

143
Vol. CXLIII. No. 4463

SATURDAY, JULY 2nd, 1960

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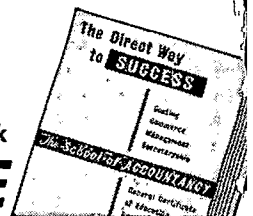
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Editorial Offices: 4 DRAPERS' GARDENS, THROGMORTON AVENUE, LONDON, EC2

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Company Law Reform

LAST January the Jenkins Committee on Company Law issued a general invitation to the public to make representations, and this has produced a large number of documents but certainly none more useful than the memorandum recently submitted by the Council of The Institute of Chartered Accountants in England and Wales, part of which we reproduce in this issue.

The reforms introduced by the Companies Act, 1948, were arrived at after much weighty consideration and were very salutary. Although comparatively little time has passed since then the need for further reform is already clamant, but this is not a criticism of the framers of the last Act; it is rather a comment on the immense economic changes which have come about so rapidly in the past decade. As the introduction to the memorandum says, the Companies Act, 1948, has worked well in practice; the present shortcomings concern either minor matters or such matters as take-over bids which have assumed prominence since the 1948 Act was drawn up.

Those whose daily work presents them with practical problems of company law are the ones best qualified to advise the Committee and few professional people can be more closely in touch with these problems than accountants, whether acting as auditors, liquidators or financial or tax advisers. The memorandum brings into prominence a number of curious anomalies and weaknesses of the Act. It also points out a number of requirements of the Act which have their origin in conditions obtaining many years ago and no longer to be found. Legal requirements which embarrass persons concerned in the operation of companies but which have no particular utility should of course be discontinued. Practising accountants are peculiarly in a position to know what these are. An example is the existence of two kinds of resolution, special and extraordinary. The only difference between them is that one requires twenty-one days' notice; the other requires only fourteen; both require a three-quarters majority. The reason for the two types of resolution is historical; the Institute would reduce them to one, with fourteen days' notice.

The creation of the 'exempt private company' was admittedly a compromise on the question whether or not a private company should be required to file accounts. The distinction between exempt private companies and companies which are merely private is highly complex. The Institute would turn all non-exempt private companies into public companies, but would make it slightly easier to qualify as an exempt company. Certainly the existing requirements are complicated and confusing, and when

certain transactions are being considered a great deal of time is wasted in considering whether or not exempt status will be lost, although the changes envisaged are not substantial enough to make such a difference on any rational ground. On the other hand, the Institute would not allow exempt status to companies which invited the public to lend money to them, or which were insolvent.

The controversial question of whether companies should be able to make donations for charitable or political purposes has given rise to a good deal of heat in some quarters. This topic appears as a separate head in the questionnaire by the Jenkins Committee. The Institute points out that already under present law such donations are permissible only where they are in the interests of the company's business or where specific power to make them is given in the memorandum of association. If the power is there but the shareholders do not wish it to be exercisable at the sole discretion of the directors, they can see to it that the directors' powers are limited accordingly by the articles. The conclusion drawn by the Council is that further legislation on the topic is not necessary.

The memorandum draws attention to a long-standing anomaly in company law, namely, the ease with which the requirements of Section 109 of the 1948 Act can be evaded. This section imposes considerable restrictions on the commencement of business by a new company, but applies only to public companies. It is common form for a new company to avoid the restrictions by incorporating itself as a private company and then at once converting itself into a public company; sometimes even on the same day. This can only bring the law into contempt. As the Institute succinctly observes, if Section 109 serves a useful purpose (a doubtful assumption seeing that it is invariably evaded) it should apply to all companies; if not it should be repealed. Similar strictures can be applied to the requirements in Section 130 as to the statutory meeting and statutory report which, because of the ease with which they can be avoided, are practically a dead letter.

A familiar kind of company is the one where 99 per cent of the share capital is owned by one individual, the remainder (consisting perhaps of only one share) being held by his wife or nominee. The Council of the Institute submits that it

should be legally possible for a company to be formed with only one member. Although it would be wrong to allow the past to influence too much the legislation of today, the fact remains that the whole background of company law is based on the assumption that a company consists of a plurality of members. Hence the development of the law of meetings (which is a subject requiring textbooks all to itself) and the requirement that certain things can be done only in general meeting. This apparently slight change therefore would involve fairly extensive re-drafting of the Act, deleting the requirements as to meetings where there is only one shareholder.

On the other side of the medal, the Council submits that the present maximum of twenty members in a partnership should be removed. It points out that the Registration of Business Names Act, 1916 (a comparatively recent Act in the history of company law), now makes it possible for anyone having dealings with a partnership to know with whom he is dealing. An alternative would be to permit all professions which may now be carried on in partnership to be carried on by companies having technically qualified directors. It may well be that one day company law and partnership law will be assimilated, to the great relief of students.

One of the most controversial aspects of company law is the question of delegation of powers from the shareholders to the directors; to what extent should the members retain control. It is common form for articles to vest the whole conduct of the company's affairs in the board of directors, as far as the law and stock exchange requirements allow. Parallel with this is the practice of including in a company's objects practically everything under the sun, including, of course, the power to dispose of the company's undertaking. In the result, directors can change the company's activities without the members knowing, or dispose of the business without having to consult them. This is, of course, undesirable and if there were any criticism of the Council's submissions on these matters, it would be that they perhaps do not go far enough.

It is peculiarly within the province of accountants to advise on matters of accounts and audit. The memorandum is particularly helpful in this sector and we hope to discuss the submissions on it next week.

Share Options as Income

THE decision of the House of Lords in *Abbott v. Philbin*, as reported in *The Times* on June 22nd, can hardly be said to have contributed to the simplification of income tax law, however right it may have been. It makes that perennial question 'What is income?' even more difficult to answer.

The facts could hardly have been simpler. In October 1954 a company granted to its secretary, Mr ABBOTT, an option to subscribe for 2,000 new ordinary shares at the then market price of the issued shares, 68s 6d. For this option Mr ABBOTT paid £20, calculated at £1 for every one hundred shares. It was in his capacity as an executive of the company that he was allowed to purchase the option, which was described as being non-transferable. Further shares could not in fact be issued without Treasury consent, which had not been obtained when the option was granted. Consent having been obtained subsequently, and the market price having gone up from 68s 6d to 82s, Mr ABBOTT exercised his option in relation to 250 of the 2,000 shares. This was done in March 1956, i.e. in the tax year following that in which the option was granted. The Inland Revenue raised a Schedule E assessment on his remuneration for 1955-56 which included £166 in respect of the option, computed as follows:

Value of shares (middle market price) taken up, 250 at 82s	£	s	d	£	s	d
				1,025	0	0
Deduct:						
Option price, 250 at 68s 6d				856	5	0
Cost of option at £1 per 100 shares ..				2	10	0
						858 15 0
Amount assessed ..				£166	0	0

MR ABBOTT appealed, contending that the option contract vested a right of property in him forthwith, that any excess of the value of the right over the price paid was an emolument of the year 1954-55, that the issue of shares in 1956 was in virtue only of that right, and that any excess in value of the shares when issued, over the price paid, represented an appreciation in the value of Mr ABBOTT's property, not an emolument of his office. One High Court judge and three lords of

appeal have upheld these contentions; three Court of Appeal judges and two lords of appeal were in favour of rejecting them.

VISCOUNT SIMONDS, expressing the prevailing view, said he did not doubt that when the company granted the option, Mr ABBOTT acquired something of potential value. It did not matter whether it fell into the category of proprietary rights or that of contractual rights or into some dim twilight that divided those juristic conceptions. This was a tax which applied equally in England and Scotland and the chosen words 'perquisite or profit whatsoever' in Rule 1 of Schedule E were as wide and general as they could be. The option was intended as a benefit from the employer to the employee as such. The test was whether this benefit was something which by its nature could be turned into money, and the test was satisfied for, though the option itself was not transferable, there was no bar to a sale of the shares once the option was exercised. Accordingly a perquisite arose when the option was granted. There could not be one perquisite at the date of the grant and another when the option was exercised: the Crown's argument failed in its initial step. But there were other difficulties in the way of the Crown's contention. The taxable perquisite must be something arising from the employment in the year of assessment; his lordship could not say that the increase in the value of the shares in any sense arose from the employment. The case of *Forbes' Trustees v. C.I.R.* (37 A.T.C. 10), which was indistinguishable, had been wrongly decided.

This majority decision does not dispose of the difficulties expatiated on by ROXBURGH, J. (38 A.T.C. 92). They were referred to by LORD DENNING in a dissenting speech. LORD DENNING said it was only the profits themselves which were taxable, not the right to them, just as it was not the expectation of salary which was taxable but the salary itself. It will be recalled that ROXBURGH, J., made a distinction between profits of a capital nature such as the option, which he said could be taxed on their value, and profits of a revenue nature such as salary, which could be taxed only as they arose. This at least would have been some guide.

FINANCE BILL

Penalties New Look—IV

THE Finance Bill has now been republished, incorporating the amendments made at the committee stage. These amendments include a new clause 13 providing for excise duties where there is a change in the use or condition of a vehicle, and a new clause 48 to amend the penalty imposed in respect of failure to give certain information in connection with investment allowances. The existing penalty is £20 and three times the investment allowance; the new penalty is one 'not exceeding £50' plus three times the allowance.

Last week we began discussion of clause 50 (originally clause 48) which extends the time limit for making assessments in order to recover tax lost through a taxpayer's 'neglect', as defined in clause 60 (1) (originally clause 58 (1)). The Revenue will have the power to make assessments without leave for any year which is not more than six years before the 'normal year', as defined in 50 (1). They must act before the end of the tax year following that in which the tax for the normal year is finally determined (clause 50 (3)).

The General or Special Commissioners are given power in certain circumstances to grant leave for an assessment to be made for a year ending more than six years before the end of the normal year (clause 50 (4)). This power arises:

- (i) where an assessment has been made more than six years after the end of the year of assessment (called 'the earlier year'); and
- (ii) where such assessment was made either:
 - (a) under clause 50; or
 - (b) on the 'fraud or wilful default' principle.

Where the assessment for the 'earlier year' falls within (b), i.e. was made on account of fraud or wilful default, and not under clause 50, the power does not arise unless the assessment for the earlier year is one of a number of assessments, made for years of which the latest ended not more than six years before the end of the normal year, the next ended not more than six years before that year, and so on.

The Commissioners may grant this leave if it appears to them that there are reasonable grounds for believing that tax for a year ending within six

years before the end of the earlier year may have been lost to the Crown owing to the neglect of the person to be assessed. Applications for such leave must be made by the end of the tax year following that in which the tax for the earlier year is finally determined (or by April 5th, 1962, if later) and the taxpayer has the right to oppose the application. Clearly, the onus of proof at this stage rests on the Revenue, but they need prove only that tax *may* have been lost.

Where an assessment is made out of time under clause 50, the taxpayer is allowed to claim such reliefs as he could have had if he had claimed at the proper time. It has been an unfortunate feature in back duty settlements in the past that the Revenue has rigorously enforced the time limits for claiming reliefs, reliefs which have become important as a result of the investigation. In the case of deceased persons, an assessment to make good tax lost through their fraud, wilful default or neglect, for a year ending not earlier than six years before the death, may be made at any time up to the end of the third tax year following the death (clause 51). If repayment of tax is wrongly made, through the fraud, wilful default or negligence of any person, it may be recovered by a Case VI assessment (clause 55).

Where an assessment is made on tax which but for fraud, wilful default, or neglect would have been assessed earlier, the Crown are to be allowed to sue for interest on the tax at 3 per cent per annum for the period from the date when it, the tax, ought to have been paid to the date of actual payment (clause 56). This interest will replace any interest which might otherwise have been chargeable under Section 495 of the Income Tax Act, 1952, the same procedure for recovery of it will apply, with the like results where tax is subsequently repaid. The rate is, of course, net, and there will be no tax allowance for it.

Profits tax has its own penalty code, modelled of course on that of income tax. Clause 59 applies the provisions of the Sixth Schedule to the Bill for the purpose of bringing the profits tax penalty code into line with the amendments made to the income tax code. *(Concluded.)*

Running the Smaller Office

7 — MECHANIZATION

by An O. & M. ADVISER

TODAY, office mechanization is a question of degree rather than of principle. That fact, however, does not make it any easier for the office manager who has to thread his way through the great variety of machines which are available. This wide range of choice, and the fact that few offices can plan mechanization programmes with complete freedom from legacies of past procedures, make this question one of the most difficult to solve.

A remarkably high proportion of so-called office improvement schemes seem to consist of a combination of bad procedures and good equipment, of bad paperwork and good wall-charts. This sort of thing arises nearly always from two causes: first, those responsible do not start mobilizing information about office equipment far enough in advance of their actually deciding to purchase it. Secondly, too often machines are considered only in relation to the job with which they are immediately concerned without regard to associated or complementary office procedures.

Guiding Principles

The basis of a sound approach to mechanization is to be found in four guiding principles. First, be absolutely sure what you are trying to achieve by mechanization. Mechanization is only a means to an end and by properly analysing your problem you may find that a simple set of ready-reckoners and some training of staff in the uses of slide-rules may be better than a battery of machines. Clerks should be encouraged to take an interest in finding simpler and quicker ways of doing their jobs. If this is done it may well result in the development of simple devices for routine work, as some very large public companies handling large volumes of paper have found.

The second principle is to calculate the possible savings from the degree of mechanization contemplated against the present performance and against the best possible manual method.

Thirdly, gather in advance as much information as possible about the equipment on the market over the range of applications in which you are ever likely to be interested. This calls for

the systematic collection of trade brochures over a period of time; this task can be a tedious business if it is put in hand at short notice but taken gradually and delegated to a clerk with instructions about what to collect, the need for list prices and the listing of claimed advantages and apparent disadvantages will clear the air to a useful extent when decisions about acquiring machines have to be taken.

Lastly, get to know as much as possible about the use to which machines are put in similar offices. Many small (and not so small) organizations have bought their experience dearly; some have put in the wrong machines; others have used them wrongly or thrown them out too soon; some have found them a big success. Here is a large pool of accumulated knowledge well worth tapping. Far too many offices never look beyond their own doors in these matters; often because they think, quite wrongly, that their methods and problems are unique—or because the idea of looking elsewhere has never occurred to them.

Economic Use

When considering the possible saving from mechanization there are a number of points to bear in mind. The problem of having an economic loan on a machine is vital and it is often overlooked. On the other hand, a machine does not necessarily need to be 100 per cent occupied to justify its existence. Study maximum and minimum loads carefully. Not only must machines have enough work but they must also be able to tackle peak loads. Consider whether loads can be varied throughout the day and week in order to raise minimum working and lower the burden of the peak. One of the biggest arguments in favour of mechanization is that it saves labour in terms of man-hours. Be sure, therefore, that you have a use for those saved hours.

Finally, maintenance and staffing problems require to be carefully considered. Study all guarantees and servicing arrangements offered. Servicing can be expensive and poor under full maintenance agreements. On the whole, more irritation arises in offices from failure of equipment which cannot be quickly put right than from performance below specification. Machines should be housed under proper conditions and according to the recommendations of the manufacturer. Someone should be responsible for the equipment and for keeping clear records of the history and repair log of each item.

Previous articles in this series appeared in the issues of April 23rd and 30th, May 21st and 28th, and June 11th and 25th.

MEMBERSHIP OF ACCOUNTANCY BODIES

As at January 1st

THE
ACCOUNTANT.

July 2nd, 1960

	1960			1959			1950			1940		STUDENTS			
	Total membership	In practice	Not in practice ¹	Total membership	In practice	Not in practice ¹	Total membership	In practice	Not in practice ¹	Total membership	ship	Jan. 1959	Jan. to Dec. 1959	Jan. to Dec. 1949	Jan. to Dec. 1939
The Institute of Chartered Accountants of Scotland	6,599	1,487	5,112	6,472 ⁶	1,474	4,998	4,924			4,477		<i>Indentures Registered</i> 323 423 ⁷ 335 190			
The Institute of Chartered Accountants in England and Wales	32,579	9,991 ³	22,588 ⁴	31,381 ⁶	9,827 ³	21,554 ⁵	14,632	6,183	8,449	13,473		<i>New Articled Clerks</i> 2,680 2,660 ¹ 1,305 663			
The Institute of Chartered Accountants in Ireland	1,569	463	1,106	1,498 ⁶	448	1,050	724	258	466	433		<i>New Articled Clerks</i> 182 194 ⁷ 72 41			
The Society of Incorporated Accountants (now in voluntary liquidation) ²							8,496	3,253	5,243	7,754		<i>New Articled Clerks and Bye-law Candidates</i> — — 1,363 586			
The Association of Certified and Corporate Accountants	10,545			10,282			7,664			6,092		<i>New Registrations</i> 1,513 1,317 1,710 1,635			
The Institute of Municipal Treasurers and Accountants	3,140			3,026			1,805			1,242		<i>Admitted after passing or being exempted from the Intermediate Examination</i> 217 216 285 102			
The Institute of Cost and Works Accountants	6,530			6,136			2,710			1,233		<i>New Registrations</i> 3,253 3,356 1,793 436			

¹ Includes members not in practice who are employed by a firm of accountants.

² The Society entered into voluntary liquidation under the Schemes of Integration with the Chartered Institutes on November 2nd, 1957. Its total membership at that date was 11,530.

³ England and Wales only.

⁴ Includes 4,010 members not in England and Wales whether or not in practice.

⁵ Includes 3,852 members not in England and Wales whether or not in practice.

⁶ Includes members of The Society of Incorporated Accountants admitted under the Integration Schemes, as follows: Scottish Institute, 128; English Institute, 10,547; Irish Institute, 371.

⁷ Excludes registration of former Society students.

The Institute of Chartered Accountants in England and Wales

Memorandum on Company Law

submitted to the Company Law Amendment Committee

The Institute's memorandum to the Jenkins Committee which runs to fifty-six foolscap pages is of first importance to the profession in general and to the whole business community. Space cannot be spared to accommodate the entire memorandum in one issue; we therefore reproduce this week part of the memorandum covering the first fifteen heads of evidence. The reproduction will be concluded in the next two issues. A leading article on the Institute's submissions appears elsewhere in this issue.

INTRODUCTORY NOTE

1. This memorandum is submitted in response to an invitation dated January 15th, 1960, from the committee appointed by the President of the Board of Trade under the chairmanship of Lord Jenkins with the following terms of reference:

"To review and report upon the provisions and working of the Companies Act, 1948, the Prevention of Fraud (Investments) Act, 1958, except in so far as it relates to industrial and provident societies and building societies, and the Registration of Business Names Act, 1916, as amended; to consider in the light of modern conditions and practices, including the practice of take-over bids, what should be the duties of directors and the rights of shareholders; and generally to recommend what changes in the law are desirable."

2. The Council has decided to comment on most of the twenty-eight Heads listed by the Committee in its questionnaire but it would be incorrect to assume from the length of the Council's memorandum that the Companies Act, 1948, has proved substantially inadequate. The Act brought into operation many major reforms and it has worked well in practice. Most of the shortcomings to which attention is drawn in this memorandum relate either to relatively minor matters or to matters such as take-over bids which have assumed prominence since the 1948 Act was drawn up.

3. Except where otherwise indicated, the sub-headings under each Head of this memorandum are those shown in the questionnaire issued by the Company Law Committee.

Head No. 1

INCORPORATION OF COMPANIES: MEMORANDA OF ASSOCIATION

(a) Requirements as to minimum number of members and other conditions of incorporation

4. By reason of Sections 1, 2 and 31 of the Companies Act, 1948, a private company must have at least two members and any other company at least seven members. If a company carries on business for more than six months while the number is reduced below the minimum every person who is a member during that time may become liable for the whole of the debts of the company contracted during that time.

These provisions appear to be based on the principle that a company is an association of persons, but in practice this is often not the real position. There are in fact many 'one-man' companies. One person may be the beneficial owner of the whole of the shares, the other member or members having only a nominal interest. It does not appear to be practicable to attempt to prevent this position and therefore there is no merit in retaining the present requirements.

5. Where a company is a wholly-owned subsidiary the holding company cannot be the only shareholder, because the subsidiary would not have the minimum number of members. In practice therefore there will be one or more persons holding one share merely to comply with the Act. Each such shareholder will usually have signed a declaration of trust and a share transfer which is held by the holding company. There is no merit in continuing this position.

Submissions

6. *The Companies Act should recognize what is often the real position and should therefore be amended so that a company need not have more than one member.*

7. *If the foregoing submission is not acceptable, the Act should be amended so that the minimum number of members would be two for any company, except that a subsidiary need not have any member other than its holding company.*

8. Section 9 of the Act requires the articles of association to be printed. This requirement prevents the use of modern methods of copying documents.

Submission

9. *Section 9 should be amended so that the articles of association shall be in typescript, either printed or copied by other means.*

10. Section 2 (1) (b) of the Act provides that the memorandum of a company must state 'whether the registered office of the company is to be situate in England or in Scotland'. The Council understands that until a few years ago the registrar of companies took the view that because of this provision it is not permissible for the memorandum of a company to state that the registered office is to be situate in Wales, but that provided the memorandum states that the registered office is to be situate in England there is no objection to giving an address in Wales as the com-

pany's registered office. The Council understands that the registrar will now accept a memorandum stating either that the registered office is to be situate in Wales or that the registered office is to be situate in England or Wales.

Submission

11. Section 2 (1) (b) should be amended to allow for a registered office to be situate in Wales.

(b) Limitation of objects to those stated in the Memorandum; obsolescence of *ultra vires* rule in view of universality of modern objects clauses; effect of that rule as between a company or its directors and third parties and as between a company and its directors. The present method of altering objects

12. No comment is made under this item, but the question of disclosure of the company's main fields of activity and changes therein is dealt with in paragraph 33 under Head No. 5.

(c) The company as a legal entity distinct from its members - 'one-man' companies

13. See the submissions in paragraphs 6 and 7 above.

(d) Shares of no par value (bearing in mind the Government's announced intention to implement the recommendations of the Committee on Shares of No Par Value. Cmd. 9112, 1954)

14. No comment is made as the recommendations of the Committee on Shares of No Par Value were in accord with the submissions made to it by the Council in March 1953.

Head No. 2

PROHIBITION OF PARTNERSHIPS WITH MORE THAN 20 MEMBERS

(Section 434, Companies Act, 1948)

15. Before the introduction of the prohibition in the Companies Act, 1862, there was at common law no limit on the number of partners in a partnership. Presumably the change introduced by that Act was designed to ensure that in the absence of a public register of the members of a firm the number of partners was sufficiently small for identification of those responsible for its debts. The position has however been changed by the enactment of the Registration of Business Names Act, 1916, which provides a means for those who have dealings with a partnership to know with whom they are dealing. With that safeguard the enlargement of partnerships should tend to give greater security to the public in its financial dealings with them. Whether members of a partnership may be too numerous to be bound together by ties of mutual trust is considered to be a domestic matter for the partners rather than a general question affecting the public at large. The Council is not aware of any valid reason for retaining the present limit of twenty or for imposing any higher limit. On the contrary, practical difficulties are created by the limitation and it becomes necessary to form separate

partnerships having some partners who are partners in all the partnerships and some who are not. Such associated firms would often prefer to have one partnership of all the partners. In some other countries large firms are permitted, without any known detriment to the public.

Submission

16. Section 434 of the Companies Act, 1948, causes practical difficulties but serves no useful purpose and should therefore be repealed. (No view is expressed on Section 429 which prohibits banking partnerships with more than ten members.)

Head No. 3

CLASSIFICATION OF COMPANIES

(a) Nature and merits of distinction between public and private companies; adequacy of restrictions imposed on the latter

(b) Nature and merits of distinction between exempt and non-exempt private companies (Sections 127, 129, Companies Act, 1948)

17. The main privileges previously enjoyed by private companies were restricted by the Companies Act, 1948, to companies qualifying as exempt private companies. The Council is not aware of any need to continue to have private companies which are not exempt private companies. It would be sufficient and would simplify the legislation if there were only public companies and private companies, the latter being what are now exempt private companies.

18. Differing views may be held on the question whether a company which has limited liability should be exempt from the requirement to file its annual accounts, but assuming that this well-established privilege is to be continued for exempt private companies the Council considers that the directors of such a company should be required to show that they are complying with the provisions of the Act relating to annual accounts and the audit thereof and that they have no reason to believe that the company is insolvent.

19. Recent experience has shown that the conditions to be satisfied for exempt status are seriously deficient in that they do not prevent an exempt private company from inviting the public to place funds on deposit with or make loans to the company (as distinct from inviting subscriptions for shares or debentures, this being prohibited by the definition of a private company).

Submissions

20. All companies other than exempt private companies should be public companies.

Note. - If this submission were adopted a private company would be what is now called an exempt private company and the latter description would be discontinued. It is however retained in this memorandum.

21. An exempt private company should be required to file a copy of its annual accounts unless the directors state in the annual return:

(a) that there has been full compliance with the requirements of the Act relating to the preparation and audit of annual accounts and their

- *circulation to shareholders and debenture-holders; and*
- (b) *that they have no reason to believe that the company will not be able to pay its debts in full as they fall due in the ordinary course of business.*

22. *A company should not be an exempt private company unless its articles prohibit any invitation to the public to place funds on deposit with or make loans to the company.*

23. In certain respects the conditions to be satisfied by an exempt private company are unnecessarily and no doubt unintentionally restrictive and should therefore be amended as indicated in the submissions below.

Submissions

24. *One of the basic conditions for an exempt private company is that no body corporate is the holder of any shares or debentures. Certain exceptions to this condition are not fully effective:*

- (a) *paragraph 6 of the Seventh Schedule should be extended by replacing the word 'shares' by the words 'shares and debentures' so that a company is not disqualified from being an exempt private company where debentures of the company are held by another exempt private company*
- (b) *it should be made clear that paragraph 7 of the Seventh Schedule (which provides an exception where a banking or finance company acquires shares or debentures by arrangement with the company or its promoters) embraces not only a subscription for shares or debentures but also a purchase of shares or debentures from a member under such an arrangement*
- (c) *to remove practical difficulties in achieving 'exempt' status for a wholly-owned subsidiary of an exempt private company paragraph 6 (1) of the Seventh Schedule should be extended so as to apply to shares held as nominee of another exempt private company in addition to the existing exception for shares held by an exempt private company.*

25. *The other basic condition for an exempt private company is that no person other than the holder has any interest in any of its shares or debentures. This condition should be modified in the following respects:*

- (a) *there should be an exception so that where shares or debentures of an exempt private company are held by a partnership it is not necessary to register them in the names of all the partners*
- (b) *paragraph 3 (1) (a) of the Seventh Schedule should be amended so that the exception for shares or debentures forming part of the estate of a deceased holder is extended to cover also 'capitalization' (bonus) shares issued to the trustees or executors of a deceased shareholder.*

26. One part of the definition of a private company is that it is a company which by its articles restricts the right to transfer its shares. On the death of a shareholder there may be considerable delay in making an acceptable transfer of the shares held by the deceased. Meanwhile the directors, acting in accordance with the provisions of the articles of association, may refuse to register the personal representatives as the holders of the shares with the result that the estate of the deceased

(who may have been a controlling shareholder) is prevented from exercising the voting rights which the deceased had by virtue of his shareholding.

Submission

27. *The personal representatives of a deceased shareholder of a private company should be entitled to exercise the voting rights attaching to the shares held by the deceased unless the articles of the company provide to the contrary.*

28. Section 109 provides that a company shall not be entitled to commence any business or exercise any borrowing powers until certain information and documents have been delivered to the registrar of companies and he has certified that the company is entitled to commence business or exercise borrowing powers. The requirements of the section do not however apply to a private company. It is therefore possible to circumvent the requirements by incorporating a company as a private company and then converting it into a public company.

Submission

29. *If the restrictions imposed by Section 109 on the commencement of business and the exercise of borrowing powers are considered to serve a useful purpose they should be made applicable to all companies; but if they serve no useful purpose they should be removed.*

(c) Unlimited companies and companies limited by guarantee

30. The Council does not wish to comment.

Head No. 4

DONATIONS BY COMPANIES FOR CHARITABLE AND POLITICAL PURPOSES

31. Donations by companies for charitable and political purposes are permissible only where they are in the interests of the company's business or where specific power to make them is given in the memorandum of association. Where such donations are permissible the authority to make them would rest with the board, unless the articles of association place a restriction on the powers of the board in this respect. The Council therefore considers that legislation is not required on this matter.

Head No. 5

EXERCISE OF POWERS OF COMPANIES BY DIRECTORS AND DEGREE OF CONTROL RETAINED BY SHAREHOLDERS

(a) Fundamental changes in company's activities

32. As indicated in paragraph 12 of Head No. 1, the Council wishes to make no submission regarding the limitation of the objects to those stated in the memorandum or on the *ultra vires* rule or the present method of altering the objects. In view however of the almost universal scope of the objects clause in the memorandum of most companies the Council considers that in the interests of the shareholders and of intending investors there should be adequate disclosure of the main fields of activity of a company and its subsidiaries. For this purpose Section 157 (2) is not adequate. The

section requires the directors' annual report to deal, so far as is material for the appreciation of the state of the company's affairs by its members and will not in the directors' opinion be harmful to the business of the company or any of its subsidiaries, with any change during the financial year in the nature of the company's business or in the company's subsidiaries or in the classes of business in which the company has an interest whether as a member of another company or otherwise.

Submission

33. *The main fields of activity in which a company and its subsidiaries operate should be stated each year in the report by the directors to the shareholders or in a statement accompanying that report. The report should also state any changes in the main fields of activity since the last report. The Board of Trade should have power to exempt from this requirement if the directors satisfy the Board that it would be harmful to the company to give the information.*

(b) Disposal of undertaking and assets

34. The objects clause in the memorandum of association of a company is usually sufficiently wide to enable the company's undertaking and assets to be disposed of without seeking the approval of the shareholders. The Council does not regard this as satisfactory except where the company has a substantial majority interest in the acquiring company. In general the principle should be that the function of the directors is to manage the shareholders' business, not to dispose of it.

Submission

35. *Before a company disposes of the whole or substantially the whole of its undertaking or of its assets, other than to an organization in which the company has directly or indirectly a 75 per cent interest, the company in general meeting should approve such disposal.*

(c) Issue of shares

36. Where a company's authorized capital is in excess of its issued capital the directors may (subject to any restrictions imposed by the articles) issue further capital up to the amount of the excess without consulting the existing shareholders. Such an issue may be in any form permitted by the articles and at any price provided there is compliance with the provisions of the Act relating to the issue of shares at a discount. The terms of such an issue might be unduly advantageous to the new shareholders as compared with the existing shareholders and might also result in the existing shareholders becoming a minority. This unsatisfactory position has recently been recognized by the Council of The Stock Exchange, London, which has stated that the specific approval of the holders of the equity should be sought when it is proposed to issue, to anyone other than the present shareholders, equity capital or securities which are either convertible into equity capital or confer the right to subscribe for equity capital.

Submission

37. *The specific approval by the company in general meeting should be required for an issue, to anyone other than the present shareholders, of equity share capital*

carrying voting rights or of non-equity capital with voting rights (other than rights arising only in special circumstances) or of share or loan capital which is convertible into equity capital or confers the right to subscribe for equity capital, if in any of these circumstances the issue is of a significant amount, say more than 25 per cent of the issued equity capital prior to the new issue.

(d) Borrowing money and charging property

38. A company normally has power to borrow and to charge its property. It is customary to vest such powers in the board, although they have to be limited if the company seeks a quotation for its shares on The Stock Exchange, London, and they may be limited in the case of other companies. If the directors were to seek to extend the powers vested in them to borrow or charge property, they would have to seek the approval of the company in general meeting; this is considered to be satisfactory.

(e) Lending money otherwise than in the ordinary course of business

39. The directors normally have power to invest surplus funds of a company and this power may be misused to the extent of realizing assets of the company and lending the proceeds to a company in which the directors have a substantial interest. In this way the directors may circumvent the prohibition against loans to directors.

Submission

40. *The prohibition against loans to directors should be extended to cover loans to a company in which the directors of the lending company hold collectively, whether directly or indirectly, a majority interest.*

Head No. 6

DIRECTORS' DUTIES

(a) Should their duties be stricter and more clearly defined and, if so, in what respects?

41. The Council does not wish to comment.

(b) Are directors generally aware of the legal duties arising from their fiduciary position?

42. The Council does not wish to comment on the general question asked in (b) but it is desired to draw attention to a defect in Section 191 as a result of which directors are able to avoid a duty arising from their fiduciary position. Section 191 provides that a company may not make any payment to a director of the company by way of compensation for loss of office without particulars of the proposed payment being disclosed to members of the company and the proposal being approved by the company. It appears that the requirements of this section do not extend to a payment made to a director of a holding company by way of compensation for loss of office as director of a subsidiary.

Submission

43. *Section 191 should be extended to apply to compensation paid to a director of a company for loss of office as director of a subsidiary of that company.*

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LIFE ASSURANCE gives him cover for his dependants and tax relief on the premiums he pays.

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a Unit Trust authorized by the Board of Trade, now presents an Executive Saving Scheme which combines these advantages, enabling him to insure his life for a stake in a balanced portfolio of over 120 selected leading British, American, Canadian, Australian and African securities and also British and American Government Stocks.

The scheme provides a special kind of Endowment Assurance policy, not for a fixed cash sum, but for a block of units in the B.S.I.T. Payment is made by an initial premium of 25% of the cost of the units at the outset, and subsequent premiums over an agreed number of years (usually not less than 12). As with a normal life assurance policy, the premiums attract the statutory income tax relief, and the policy may be drawn up under the Married Women's Property Act, so as to minimize Estate Duty.

The offer price of the units on June 28th, 1960, was 10s 2½d to yield £3.63%.

For further information, please write to the Managers, Philip Hill, Higginson, Erlangers Limited
34 Moorgate, London, EC2

NEWS OF INTEREST

For the Regular Saver
of 10/- to £10 per month
4% equals £6.10.7%
where Income Tax is
paid at standard rate.

4%

For the Paid-up
Shareholder
investing from £1 to £5,000
3½% equals £5.14.3%
where Income Tax is
paid at standard rate.

3½%

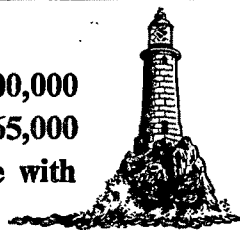
For the Depositor
investing any sum
up to £5,000
3% equals £4.17.11%
where Income Tax is
paid at standard rate.

3%

DEPOSITS ARE TRUSTEE INVESTMENTS

Income Tax paid by the Society

With assets of £30,600,000
and reserves of £2,065,000
your savings are safe with
the



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WRITE FOR INVESTMENT BROCHURE

2/60

(c) Directors' and officers' dealings in their own companies' shares

44. Section 195 requires a company to keep a register showing for each director any shares or debentures of the company (and of other companies in the same group) which he holds or of which he has any right to become the holder. The register does not extend to officers other than directors although such officers may have no less opportunity of dealing to their advantage. It is not clear whether the section embraces directors' dealings in options. The rights under subsection (5) to inspect the register appear to be unduly restricted.

Submission

45. Section 195 should be amended in the following respects:

- (a) the scope of the register should be extended to include officers other than directors, for which purpose 'officer' would need to be clearly defined; it is assumed that the definition would for this purpose include an auditor
- (b) it should be made clear that the section applies to dealings in options
- (c) the register should be open to inspection by the public on the same conditions as is the register of members.

(d) Disclosure of directors' interests

46. The Council does not wish to comment.

(e) Should bodies corporate be allowed to be directors?

47. The Council sees no reason why corporate bodies should be prohibited from being directors.

Matters concerning the appointment of directors

48. The Council wishes to comment on the following matters relevant to this Head but not covered by items (a) to (e) of the questionnaire.

Appointment of a new director

49. Article 95 of Table A gives power to directors to fill a casual vacancy or add to the number of existing directors. It provides however that any director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election. These provisions could usefully be given statutory force.

Submission

50. The provisions of Article 95 of Table A concerning the appointment of a director to fill a casual vacancy or as an addition to the existing directors should be given statutory force.

Fraudulent persons managing the affairs of companies

51. Section 188 gives power to restrain a person from taking part in the management of a company if he has been fraudulent in relation to the affairs of a company. The effect of the section is to enable an application to be made to the Court to make an order whereby the person against whom the order is made shall not, without the leave of the Court, be a director of or in any way concerned in the management of a company

for such period not exceeding five years as may be specified in the order. The Council considers that a person who has been fraudulent, whether in company matters or in similar matters, should be prevented from taking any part in the management of a company except by permission of the Court.

Submission

52. Section 188 should be amended so that any person described in subsection (1) or any person who has been fraudulent in a similar manner (such as fraudulent bankruptcy) would be prohibited from being a director of or in any way concerned in the management of a company unless he has applied to and obtained permission of the Court; this provision should apply not only to new appointments but also to appointments already held.

Head No. 7**SHARES WITH RESTRICTED OR NO VOTING RIGHTS**

53. The view can be taken that shares with equal rights, other than voting rights, should also have equal voting rights. If legislation were to attempt to give effect to this proposition it seems that the requirements of the legislation could be avoided by the introduction of some slight variation into the rights, other than the voting rights, attaching to shares so that the voting rights need not be equal.

54. A view which is no less tenable is that persons who acquire shares with restricted or with no voting rights may be presumed to acquire them with full knowledge of what they are doing. It is however important that the limitation should be apparent.

Submission

55. Shares with restricted or no voting rights should be described to show the limitation on the share certificates, in the annual accounts and in any invitation to subscribe for such shares.

Head No. 8**THE PROTECTION OF MINORITIES
Adequacy of existing remedies. Winding-up under the 'just and equitable' rule (Section 225 (2), Companies Act, 1948); the remedy afforded by Section 210**

56. There appears to be little experience of the use of Section 210 and there are grounds for believing that this is due to the limited usefulness of the section rather than to the absence of the kind of oppression with which it is intended to deal. It is important particularly in a private company for adequate remedies to be available to an oppressed minority and no doubt the Committee will be receiving evidence from other quarters regarding the practical application of Section 210. The Council has therefore decided to confine itself to an observation on one particular respect in which the section appears to be unduly restricted.

57. Under subsection (2) the Court has to be satisfied;

(a) that the company's affairs are being conducted in a manner oppressive to some part of the members and

(b) that to wind up the company would unfairly

prejudice that part of the members but otherwise the facts would justify the making of a winding-up order on the ground that it was just and equitable that the company should be wound up.

The inclusion of the requirement under (b) is an unnecessary limitation on the scope of the section. The Council is informed that persons wishing to apply under Section 210 have been deterred from doing so because although they had no doubt about their ability to show that the company's affairs were being conducted in an oppressive manner they could not also show that the facts would justify the making of a winding-up order.

Submission

58. The conditions specified in Section 210 should be reviewed with a view to ensuring that the section provides a readily available remedy to an oppressed minority; in particular the need to show that the facts would justify the making of a winding-up order should be removed.

Head No. 9

PROTECTION OF SPECIAL CLASSES OF SHARES

Modification of class rights (Section 72, Companies Act, 1948) - getting rid of preference shares by winding-up or return of capital

59. When the rights attaching to a class of shares are varied an appeal to the court may be made under Section 72 by the non-assenting holders of not less than 15 per cent of the issued shares of that class. The percentage is rather high (compare Section 209 relating to compulsory acquisition of shares of a 10 per cent minority) and the cost of an appeal may be a material consideration. A successful appeal results in cancellation of the variation, whereas in some cases it might be convenient for the court to have power to modify the variation.

Submission

60. Section 72 should be amended so that:

- (a) a minority of 10 per cent instead of 15 per cent would have the right of appeal*
- (b) the cost of an appeal would be borne by the company unless the court is satisfied that the appeal was unreasonable*
- (c) the court would have power to modify the variation of rights as an alternative to cancellation.*

Head No. 10

BOARD OF TRADE POWERS TO APPOINT INSPECTORS

61. The Council does not wish to comment.

Head No. 11

DISCLOSURE OF OWNERSHIP AND CONTROL

(a) Nominee shareholders and debenture-holders (including nominee holding companies)

(b) Control through nominee directors

62. The Council does not wish to comment.

Head No. 12

SHARE TRANSFER AND REGISTRATION PROCEDURE

Note. - The subheadings below were not shown in the questionnaire.

Need for simplification

63. Share transfer and registration procedure is cumbersome and slow. There are various ways in which delays could be avoided if a revised procedure, satisfactory to all concerned, could be devised. For example:

- (a)* at present the same transfer document has to be signed by both the transferor and the transferee. The delay which this causes could be avoided if it were possible for the transferor and the transferee to sign separate documents which could be brought together by a stockbroker and registered with the company. The requirements of the Stamp Act could be complied with by stamping the document signed by the transferee. Where shares are being transferred to more than one transferee the present procedure for certification of transfers by the registrar of the company could be followed
- (b)* if a procedure on the lines of (a) above were introduced the document to be signed by the transferor could form part of the share certificate; where the holder is disposing of only part of the shares represented by the certificate a balance ticket could be issued by the registrar of the company and exchanged later for a new share certificate
- (c)* delays arise in practice because the signatures of the transferor and the transferee are required to be witnessed; such delays could be avoided if a transferor and a transferee were merely required to sign, after which the signature could be confirmed by a stockbroker, bank official or other responsible person dealing with the transfer
- (d)* where a transferor or a transferee is a corporate body delay is caused because of that body's internal procedure for affixing the seal to the transfer; this would be avoided if the transfer could be executed by the signatures of duly authorized officers instead of under seal.

Submission

64. There should be an examination of share transfer and registration procedure with a view to simplification and the avoidance of delays.

Stock and unnumbered shares

65. 'Stock' and 'share' both represent the same kind of interest in the capital of a company. It would remove some public confusion and would also simplify considerably a good many provisions of the Act if only one of these descriptions were in use. If all the issued shares, or all the issued shares of a particular class, are fully paid and rank *pari passu* for all purposes the

shares do not have to be distinguished by numbers (Section 74). Stock is virtually the same as unnumbered shares and the description 'stock' is therefore unnecessary.

Submission

66. *References to stock in relation to share capital should be removed from company legislation.*

67. On a strict reading of Section 74 it appears that when there is a new issue of fully-paid shares of a class already in existence the new shares are required to be numbered at the time of issue notwithstanding that the numbering may be dispensed with almost immediately afterwards.

Submission

68. *Section 74 should be amended to make it clear that when there is a new issue of fully-paid shares ranking pari passu with unnumbered shares already issued, the new shares need not be numbered.*

Notice of trust on registers

69. Section 117 provides that no notice of any trust shall be entered on the register of members or be receivable by the registrar in the case of companies registered in England. There is no similar provision relating to the register of debenture-holders. The provisions of the section do not apply to Scotland where the practice is to note trusts for the purpose of marking stock as the property of a particular trust. In England many companies refuse to accept any special designation because they consider that to do so may be a breach of Section 117. This causes considerable inconvenience to persons who are holders in more than one capacity of shares in the same company.

Submission

70. *Section 117 should be amended to make it clear that a company is not in breach of that section and is not incurring any obligation under any law relating to trusts if at the request of a shareholder a holding of shares is specially designated in some manner which does not in itself indicate that the holder is a trustee.*

Head No. 13

MULTIPLICITY OF DIRECTORSHIPS HELD BY ONE INDIVIDUAL

71. Whether it is practicable or desirable for one individual to undertake the appointment of director to many companies is not a matter which can be dealt with by legislation. The work in connection with a directorship will differ as between one company and another and it would not be possible to decide upon the number of directorships which any particular individual might properly hold. The register of directors which has to be kept in order to comply with Section 200 contains particulars of any other directorships held by each director, apart from those held by a director in companies of which the company is the wholly-owned subsidiary. This disclosure (together with the disclosure to the board of a director's interest in contracts, required by Section 199) is in the opinion of the Council sufficient safeguard in relation to a director's association with other companies.

Head No. 14

PRACTICE OF CARRYING ON BUSINESS THROUGH ASSOCIATED AND SUBSIDIARY COMPANIES

72. It is often convenient for a company to operate through subsidiaries. The usual circumstances are:

- (a) where a company acquires shares in a company carrying on another business and allows that company to continue to conduct the business
- (b) where a subsidiary is formed in order to conduct an activity which would otherwise be carried on by a branch or separate division.

73. The Council has no comment to make on the provisions regarding disclosure by a holding company of its interests in subsidiaries. In Head No. 21 a submission is made to the effect that the accounts of a subsidiary should disclose shares held in a fellow subsidiary (that is to say another subsidiary of the same holding company).

74. A company sometimes has a material holding of shares in another company which is not a subsidiary but whose business has some bearing on the business of the company. Sometimes two or more companies each have a similar holding of shares in such a company; this position may be brought about by the acquisition of shares in an existing business or by a joint arrangement to form a company for the specific purpose of carrying on an activity which has a bearing on the business of each of the shareholding companies. Shares of this kind are dealt with in the accounts as trade investments and the Council has no comment to make.

Head No. 15

LOAN CAPITAL

- (a) Debentures and debenture stock
- (b) Trust deeds - duties of trustees and receivers

75. The Council does not wish to comment on (a) and (b).

(c) Registration of charges

76. A charge created by a company registered in England must be registered within twenty-one days of the creation of the charge. In the interest of creditors and possible creditors of the company, it is desirable that this period should be reduced; a reduction will not however be possible unless the registrar of companies is permitted to accept for registration an unstamped copy of the instrument by which the charge is created or evidenced.

Submission

77. *Section 95 should be amended by reducing from twenty-one days to seven days the time limit for the registration of a charge created by a company registered in England; and to make this possible it should be permissible for the registrar of companies to accept unstamped a copy of the instrument by which the charge is created or evidenced. Evidence of stamping should be submitted to him later.*

(To be continued.)

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

AUSTRALIA

Views on Decimalization

THE joint statement of The Australian Society of Accountants and The Australasian Institute of Cost Accountants, recently submitted to the Decimal Currency Committee set up by the Commonwealth Government, contains the results of some practical tests carried out by the Society and the Institute.

The average time taken by three operators, one senior and two junior, of key-driven adding-calculating (non-listing) machines to add a column of 150 assorted £ s d figures totalling £3,000 was two minutes, thirty-two seconds. The average time for the same operation, but with the amounts decimalized, was one minute, fifty-eight seconds, a saving of 22.4 per cent. Another test was the application of 137 per cent overhead to the amounts used for the straight adding test. The time taken by a junior operator with the same kind of machine to calculate and write down the £ s d amounts was twenty-two minutes thirty-five seconds and the checking of these by a senior operator occupied sixteen minutes, twenty-one seconds. The corresponding times for the decimalized figures were nineteen minutes seventeen seconds and ten minutes six seconds, savings of 14.6 per cent and 38.2 per cent respectively. A third revealing test was the extension of about 200 stock sheet entries, the quantities being in units of 1 to 15,000 and the values in widely assorted £ s d amounts ranging from 1d to around £53. The average time taken by two juniors for this operation was twenty-nine minutes thirty-seven seconds. With the unit rates decimalized, the average was sixteen minutes fifty seconds, a saving of 43.1 per cent. For the £ s d tests, the operators had no prior warning but for the decimal tests one or two hours' preliminary practice was given so as to familiarize them with the new forms.

The Society and the Institute strongly support the idea of decimal coinage and, indeed, were unable to suggest one real disadvantage to its adoption apart from the initial inconvenience and transitional costs. Among the benefits which they list are that machines would not only become cheaper to manufacture but would also be more versatile in that they could be used for mathematical as well as monetary tabulations and calculations.

SOUTH AFRICA

Business and Share Valuations

FROM the Joint Council of Chartered Accountants of South Africa comes a concise study, superseding an earlier publication on a smaller scale, of the highly debatable subject of evaluating businesses as going

concerns. The text runs to just over eighteen pages but there are a further thirteen pages of appendices.¹ Of the six chapters into which the text is divided, the last two – on the incidence of taxation of income and estate duty valuations – are mainly of local interest but the other four are universal in their import and application and contain many shrewd comments. Successively, the general principles, the basic information necessary for the valuation of a business and the application of that information to whichever is the most suitable means of valuation – the intrinsic worth method, the super profits method or the earnings basis – are considered and, in the fourth chapter, the specific types of ownership – individual trading, partnerships and limited companies – are reviewed.

The approach of the authors – the Research Committee of the Joint Council – to the problems they discuss may fairly be epitomized in the last sentence of the text proper which is to the effect that the valuing accountant should always ask himself if he would regard the valuation he has arrived at as fair if he himself were the buyer or the seller of the business or shares concerned.

UNITED STATES

Growth of Business Concerns

ANY change in the number of operating concerns in a country is likely to be of interest to the accountancy profession since the demand for accountancy services must have some relation to such changes.

The May issue of *Survey of Current Business*, published by the United States Department of Commerce, gives the number of operating concerns in the United States at the beginning of 1960 as 4.659 million, an increase of 75,000 or nearly 2 per cent in a year. This increase is made up of 420,000 new businesses established in 1959 less 345,000 lapsed businesses. The rate of increase in 1959 exceeded that in the two previous years, a reflection of the higher rate of economic activity.

Of the total concerns operating at the beginning of the year, 10 per cent were on contract construction, 7 per cent on manufacturing industries, 7 per cent in the wholesale trade, 43 per cent in the retail trade, 18 per cent in the service trades, and the remainder were miscellaneous businesses. The service trades showed the largest relative rise in 1959. Since 1957 the net gains in the number of concerns have been small in all but the service and retail trades.

¹ *The Valuation of Businesses, Shares and other Proprietary Interests.*

• Company Financing Explained

STATEMENTS showing the source and application of funds appear in published company accounts more often in the United States than in the United Kingdom. In Britain, such information is regarded as being mainly of managerial interest and is therefore usually confined to the substantial folders of figures which are circulated exclusively among directors and other top executives. In some ways this reticence is to be regretted, because both the intelligent lay shareholder and the prospective investor have a right to know how the company is being financed internally – in other words, how the working capital is being maintained. As this information is, in the long run, closely related to the profit performance of the company, it is essential that the progress of both should be made apparent.

A useful publication demonstrating a new way of analysing the data needed for the preparation of a statement of the source and application of funds has been written by Richard J. Bannon, PH.D., C.P.A., and Edwin Cohen, M.A., C.P.A., Associate and Assistant Professors of Accountancy respectively at De Paul University.¹ They believe that the T-account system which they advocate is more readily and more thoroughly understood by students than the traditional columnar work-sheet method. Their reasoning in the thirty pages of text which the booklet contains is concentrated but clear and British accountants who have periodically to prepare such statements, as well as students preparing for examinations in management accounting papers, will find this well-written exposition both stimulating and challenging.

Automation in the Revenue Service

IT is reported from the United States that the Internal Revenue Service there is making plans for setting up an electronic processing system to carry on magnetic tape a master file of every taxpayer, from the time he first files until the day he dies. It will ultimately be possible to determine automatically if the taxpayer fails to file a return, and to make speedy comparison of returns with special information reports used for cross-checking purposes.

Embezzlement by Computer Manipulation

THE vice-president and head of the accounting department of one of Wall Street's largest brokerage firms, has been charged with grand larceny, involving \$170,000 over the last five years, reports *The Journal of Accountancy* (April). It is said that, outside office hours, he would punch cards to transfer amounts from the firm's margin-interest income account to the trading accounts of himself and his wife by means of the firm's IBM computer. He would apparently prepare a four-part form supporting a fictitious deposit of cash in his trading

account, against which he would buy stock and sell shortly afterwards. The usual independent audit of brokerage firms is confined to the balance sheet accounts and would, it is said, not detect this theft. All except the one cash section of the four-part form was destroyed, the copy retained being checked by the margin department against the margin account. The total misappropriation is believed to exceed \$1 million over eight years, the Statute of Limitations setting the five-year limit.

E.D.P. by Professional Accountants

MR HAROLD M. YOUNG, C.P.A., describes in *The Journal of Accountancy* for March how his firm of practising accountants bought a Remington Rand Univac 60 punched-card electronic computer to process data for clients. The firm was about to employ the services of an outside service bureau and supervise its work for regular clients, when a company which owned a Univac computer and used it to only 20 per cent of capacity suggested that the C.P.A. firm should take over computer and staff and serve them and other clients to the full extent of the computer's capacity.

The new service immediately met with ready acceptance by clients and the operating costs were amply justified, the cost to clients being no greater than for manual clerical work and the results much more speedy. The daily reports are said to be ready at the start of the next working day and monthly reports are available from fifteen to twenty days sooner than under a manual system.

BRAZIL

The Abacus Society

AT the seventh annual general meeting held recently of The Abacus Society of São Paulo, Mr C. K. Atkinson, F.C.A., was elected President for 1960-61.

The report of the committee for the year ended March 31st, 1960, shows that membership of the Society, which is comprised mainly of United Kingdom, Commonwealth and United States accountants, numbered forty-seven of which twenty-six are members of the English Institute. There are four members of the Scottish Institute, one of the Irish Institute and three members of The Association of Certified and Corporate Accountants.

Regular monthly meetings were held throughout the year their subjects dealing with local problems in general. The growing interest in electronic computer systems in the country was discussed at two of the meetings.

Mr C. E. G. T. Kirk, F.C.A., of Caixa Postal 2922, São Paulo, has been re-elected honorary secretary, Mr G. L. Bishop, A.R.A.N.Z., has been elected honorary treasurer, and Messrs F. A. W. Nye, A.C.A., and G. H. Osborn, A.A.C.C.A., become committee members. In addition, the Immediate Past President, Mr C. J. Cross, F.C.A., will serve as an *ex officio* member.

¹ *Preparation of Statement of Sources and Application of Funds by the T-Account Method.* (South-Western Publishing Co, Cincinnati, Ohio. \$0.60 net.)

Weekly Notes

Restraining Demand

NOBODY in the City of London at the end of last week was really surprised by the news of the increase in Bank rate to 6 per cent. Or, perhaps, even by the additional measures which require the clearing banks to increase their special deposits with the Bank of England from 1 per cent to 2 per cent of their total deposits (in the case of the Scottish banks the increase will be from $\frac{1}{2}$ per cent to 1 per cent). The Government statement that the investment programme in the public sector during 1961-62 is to be held at the current level of £1,675 million, reflects the Government's concern with the present situation. According to the Chancellor of the Exchequer, speaking in the House of Commons on Thursday, 'The object of all the steps I have taken is to maintain the economy in balance and to keep off inflation. The economy today in general is in a very healthy state and I intend to do my best to keep it so'.

While the immediate reaction to the new measures was a sharp improvement in the exchange rate of sterling, the relative severity of these measures serves to underline the potential gravity of the situation. All the symptoms of successive post-war crises are present: excess consumer demand, rising investment, inflationary wage demands, coupled with a deteriorating balance of payments position. It is to be hoped that the autumn pressures on the foreign exchanges will be withstood, but much will depend on the reaction of both labour and management in industry at home. The simple fact of the matter is that our exports are not sufficient, and the present situation needs more than a standstill in wages and profits. It requires a greater degree of mobility of both labour and capital from industry to industry. The week-end declaration by the Chancellor that he proposes to change Bank rate whenever circumstances require, should help to put the latest change into perspective. Nevertheless, it should not be forgotten, as the Radcliffe Committee was at pains to stress, that credit policy alone will not always keep the economy on an even keel.

Share Ownership

IN the debate on the Finance Bill in the House of Commons last week, Conservative back-benchers were pressing for additional measures to attract more small savers towards industrial share ownership. The Government were unable to agree to proposals for tax relief on all investment income up to £15 a year since it was stated that in a full year this would cost £40 million.

The Economic Secretary to the Treasury said, however, that the Government would give sympathetic consideration to proposals for simplifying the

buying and selling of shares which are expected to emerge shortly from the inquiry initiated last year by the London Stock Exchange. While accepting a motion urging Government encouragement for spreading share ownership more widely, Mr Barber said the Government must watch carefully the likely source of the money invested since the economy would not benefit from a mere transfer of savings from National Savings and other traditional methods of saving to industrial securities.

An analysis of holders of ordinary shares appeared in a recent issue of *The Times*. This was made as part of a large-scale investigation of the ownership and distribution of property in the United Kingdom now in progress at the University of Cambridge, Department of Applied Economics. The results showed that personal holdings accounted for at least 55.6 per cent of the total; United Kingdom banks and nominees accounted for a further 15.3 per cent, which is increased by executors' and trustees' holdings to 17.4 per cent. In an accompanying article, the authors of the analysis suggested that by far the greater part were the holdings of individual persons or of personal trusts. The next largest groups were holdings by insurance and assurance companies (8.0 per cent), by residents outside the United Kingdom (4.3 per cent) and investment trusts (3.0 per cent). These figures relate to the top 660 companies with a quoted ordinary share capital at mid-1957 of £9,200 million. Final estimates are to be published later covering all companies, including the smallest size group and covering also holdings of preference shares and of loan capital.

Publicizing the City

METHODS of encouraging small investors were also discussed at the Industrial Welfare Society's conference in London last week on 'How the City works'. During the two-day conference, speakers discussed the general economic scene, the London Clearing Banks, the discount market, Lloyd's, the working of the stock exchange, new capital issues, investment and unit trusts, and bringing the City to the factory floor.

Mr Edward du Cann, M.P., said that at present some 600,000 shareholders held about £200 million in unit trust funds and he anticipated that in ten years the number of shareholders would grow to over one million and the funds to about £500 million. He said, however, that people in the United Kingdom were not really attuned to share-owning, and selling the idea of unit trusts would not be easy. A remarkable feature of the investment scene had been the growth of investment clubs from virtually none, two and a half years ago, to 400 today.

Mr E. L. Richards, while stressing that the stock exchange does not raise money and that jobbers do not govern prices, said that the stock exchange was doing everything possible to safeguard the public in share dealings. Summing-up the conference, one of the joint chairmen, Mr J. Dundas Hamilton, said

that almost everyone in the City complained that it did not have the right type of publicity in the Press. While the conference itself may have some value in remedying this, the main difficulty would seem to be that of securing adequate publicity for its deliberations.

Rating 'Player's Please'

AN important principle of rating law in relation to advertisements was decided a little over a week ago by the House of Lords in *Imperial Tobacco Co v. Pierson* (*The Times*, June 23rd). The company had entered into an agreement with Bradford Corporation under which it was entitled, for a payment of £150 a year, to exhibit on a wall of corporation premises a flashing neon advertising sign reading 'Player's Please'. The company, at its own expense, fixed the sign to the wall and erected a scaffolding and ladder to service it. The sign was admitted to be a structure. It was assessed to rates at £165. The company appealed, contending that the assessment should be £150 only, in accordance with Section 56 of the Local Government Act, 1948, which provides that where the right to use any land (including any structure on it) for advertising is let out, that right is to be treated for rating purposes as a separate hereditament.

The Lands Tribunal allowed the appeal, on the ground that the section was too plain to allow any other construction. This decision was reversed by the Court of Appeal but has now been restored by the House of Lords. Viscount Simonds pointed out that it was the right which had to be assessed not the manner in which that right had been exploited. The fact that the manner of exploitation involved the erection of a structure was not relevant. Lord Denning, in a dissenting judgment, said he was suspicious of a literal interpretation of Section 56 because it led to such surprising results.

Surtax Abolished in the Isle of Man

TYNWALD, the Manx Parliament, decided on June 21st, after five hours' debate, to abolish surtax. The standard rate of income tax will remain at 4s 6d in the £. The object of the change is to attract wealthy residents to the island, who by their own tax contributions, and by their contribution to the profits of local traders, will strengthen the island's economy. The Isle of Man Government is also to issue its own currency notes.

Institute of Office Management

THE name of the Office Management Association as from July 1st has been changed to 'The Institute of Office Management'. The Association, whose membership stands at 2,500, having doubled during the last five years, was founded in 1915 as the Office Machine Users' Association; the title, Office Management Association, was adopted in the early nineteen thirties, when it merged with another, more recently established, body of that name.

The new Institute will have divisions for those

engaged full time in specialist branches of office management, such as organization and methods, the application of computers to office procedures and office supervision. There will also be groups for those engaged on communications work and other specialist aspects of office management, for example, retail trade, smaller offices, etc.

Mr G. J. Mills, Chairman of Council, speaking in London last Monday, said:

'The Institute of Office Management has a record of research on many subjects, particularly in regard to office methods, salary rates and working conditions. This is to be developed by the setting up of an information service which will include the expansion of the Institute's library. This development was foreseen some time ago when the Institute appointed a full-time technical officer. As a result of this appointment, the Institute issued earlier this year a revised edition of the clerical job grading scheme and will in the near future be issuing the first three in a series of ten film strips dealing with computers. A textbook on sales accounting methods is also due for publication.'

The President of the Institute is The Right Hon. the Viscount De L'Isle, V.C., P.C., D.L., M.A., F.C.A.

More Evidence for Jenkins Committee

THE pace of submissions to the Committee on Company Law Amendment is increasing. Besides the memorandum of The Institute of Chartered Accountants in England and Wales referred to on other pages, evidence has recently come from three other sources.

The Association of Unit Trust Managers has submitted a lengthy document confined to the topic of unit trusts. It argues that the rapid development of unit trusts has outrun the law and it calls (as does the Institute) for a new Unit Trust Act which would have a specimen form of trust deed (like Table A) in a schedule and which would avoid that unpleasant word 'fraud' which appears in the title of the present Act regulating unit trusts. The Association complains of too rigid a control of managers and claims that some of the finer points of the business are not understood by officers of the Board of Trade who are concerned with unit trusts.

The Westminster Chamber of Commerce has made a number of recommendations. One is that the trustees of a company's pension fund should not be allowed to buy the company's shares. Like the Council of the Institute, the Chamber recommends the limit of twenty on the permitted number of partners in a partnership. Unlike the Institute, it is in favour of prohibiting political donations by companies, but recommends, again in conformity with the Institute, that the minimum of two members of a company be reduced to one. Much of the evidence is taken up with take-overs.

Take-over bids and non-voting shares are the two topics dealt with in a memorandum recently submitted by Mr R. W. Moon, B.LITT., F.C.A. Mr Moon

says that, in general, take-over bids have proved to be in the national interest in that they have ensured that assets have been used more productively than would otherwise have been the case. Such disagreement about them as exists, centres more upon the mechanics of the bid than on the principle behind it. In Mr Moon's view full and frank information is absolutely essential, whether the offer is for cash or by way of exchange of shares. The existing shareholders are entitled to know the value and earning prospects of their own company, and if they are being asked to accept shares in the company taking over they should

have the same information as is given in a prospectus of that company, perhaps abbreviated to suit the case.

Mr Moon traces the growth and development of the practice of issuing shares which bear the same risks as ordinary shares but give no power to vote. His submission here is that further issues of non-voting ordinary shares by public companies should be made illegal, while existing non-voting shares should be enfranchised within a suitable period. He also suggests that it is doubtful whether, even in the private company field, there is any justification for retaining non-voting equity shares.

This is My Life . . .

by An Industrious Accountant

CHAPTER 31

THE danger sometimes in promoting keen young accountants rapidly up the ladder is that success is liable to go to their heads. I've just had this experience with the recently-advanced manager of our purchases section, who was previously one of our most industrious and ambitious costing men.

I had asked him for some tabulated comparisons of half-yearly charges, which seemed slow in arriving and ultimately he promised faithfully they'd be on my desk at 9 a.m. this morning, as I needed them for a profit and loss forecast. Sure enough, there they were. I was annoyed to find, fifteen minutes later, that two vital figures were missing and it was impossible to analyse the percentages without them. And when I phoned through to his office, my manager hadn't arrived.

I'd noticed his unpunctuality recently. Some people respond to promotion by arriving earlier and staying on later; others assume the prerogative of late arrival in the morning to be implicit in their new rank. Our man had been working this particular success-symbol rather hard. When he arrived at length, he admitted jauntily that he hadn't seen the figures; he had delegated their preparation to his number two. As he consequently couldn't be expected to answer queries on the comparisons, we had number two – a stolid veteran of the company – up to complete the records. He was rather ruffled. He had asterisked the omissions to remind number one to insert some semi-confidential figures, and they had a brisk little argument about who was really to blame.

At this stage, I suddenly noticed that the charge for garage repairs for the half-year just finished seemed very small; I distinctly remembered a large invoice in Thursday's post. Was it not included?

They both went very red. It appears that number one had been passing his post to number two to examine, with instructions to refer back anything

exceptional, and number two had been saying the same to number three. Talk about delegation! (If numbers four and five follow the same practice as their seniors, then the section's efficiency depends on their junior clerk, whose sole passion in life is his motor bicycle.) I put on an expression of quizzical surprise, or at least an attempt thereat, and uncharitably enjoyed their confusion. I was interested to note that number one was angry and tight-lipped, and tended to resent my questions. He couldn't be expected to be familiar with all the details, he said, he was surely entitled to delegate the routine stuff. His number two, in contrast, was enjoying his young chief's embarrassment, which may indicate poor staff relationships. I must check this set-up soon.

Meantime, when number two had left with his reputation untarnished, I had another question for number one. What was happening to our bank overdraft? It had been rising steadily and alarmingly over the past month. Our operating costs appeared to be normal, departmental stocks were maintaining an average figure, and receipts from debtors were better than average, if anything. So why the increased overdraft? Maybe he was paying in advance for foreign exchange for imported goods? Overdrafts are expensive luxuries. Number one showed himself slightly affronted by any imputation on his performance. His accounts had balanced perfectly, he had cleared up the mess that had greeted him in his new department, he had never been so up-to-date. . . .

A little bell rang somewhere in my subconscious. How up to date can you be? Yes, there it was. In his zeal for well-balanced precision, he had gone too far and had paid his invoices as they were passed; he was in fact paying net monthly accounts within seven days of the invoice date. No wonder we needed further bank facilities if he was using up a month's time-lag.

Instead of expressing regret, number one went sulkily silent; so I deliberately decided to forgo the modern tactful reaction and instead gave him a brisk old-fashioned dressing-down. He went out livid with anger. I hope he'll come up cheerfully and efficiently next week and not sulk in his tent; it's a good man who can take his reprimand well. His future prospects rest largely on his coming behaviour.

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BRANCHES THROUGHOUT THE COUNTRY

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the judgments, in the 'Annotated Tax Cases'.

C.I.R. v. Harton Coal Co Ltd

In the High Court of Justice (Chancery Division)

June 3rd, 1960

(Before Mr Justice PENNYCUICK)

Surtax – Undistributed income of company – Control – Whether subsidiary company – Whether public substantially interested – Finance Act, 1922, Section 21 – Finance Act, 1936, Section 19 – Finance Act, 1937, Section 14.

Until January 1st, 1947, the respondent carried on a colliery business and afterwards until July 29th, 1952, when it went into voluntary liquidation, the respondent's activities consisted of collecting income and interim payments and of paying off its debentures. The respondent's capital consisted of 963,250 'A' ordinary shares of 10s each and 75,000 'B' ordinary shares of 10s each. The 'B' ordinary share, numbered 1,000,001 (the management share) carried a number of votes equal to three times the total number of votes attaching to all the other shares of both classes, and all the other shares carried one vote each. The management share and one other 'B' ordinary share were held jointly and beneficially by Schroder Nominees Ltd (Schroder) and Stephenson Clarke Ltd (Stephenson). The name of Schroder was the first on the register.

Schroder and other companies in the Schroder group held 401,355 'A' ordinary shares and 31,249 'B' ordinary shares, and thus, with one of the two shares already mentioned, the Schroder group held five-twelfths of the issued shares of each class. Stephenson and other companies in the Stephenson Clarke group held 401,355 'A' ordinary shares and 31,249 'B' ordinary shares, and thus with one of the two shares, also held five-twelfths of the issued shares of each class. British Industrial Corporation Ltd (BIC) through nominees held 160,540 'A' ordinary shares and 12,500 'B' ordinary shares, and thus held two-twelfths of the issued shares of each class. Schroder was admittedly a company within Section 21 of the Finance Act, 1922, and Stephenson was admittedly not a company within that section. The chairman of Stephenson was also chairman of the respondent. Article 78 of the respondent's articles of association provided for the first-named joint holders to exercise the voting rights on jointly held shares.

It was contended on behalf of the appellants (i) as Schroder was the first-named holder of the management share, it controlled the respondent; (ii) as the respondent was under the control of Schroder, and as Schroder was within Section 21, the respondent was not a subsidiary company within Section 21 (6); (iii) alternatively, the respondent was under the control of

Schroder and BIC, both being companies within Section 21.

It was contended on behalf of the respondent (i) that as the beneficial ownership of the management share was in Schroder and Stephenson no control could be exercised by its means unless the joint owners agreed, and, therefore, the respondent was not under the control of Schroder; (ii) that BIC, though under the control of not more than five persons, was a company in which the company were substantially interested and was, therefore, outside Section 21; (iii) that the respondent was a subsidiary company because the control of it was in Stephenson and BIC, neither of which was a company within Section 21. The Special Commissioners decided that the respondent was a subsidiary company, and that the directions should be discharged.

Held: (1) the respondent was a subsidiary company within Section 21 (6), as it was controlled by two other companies, Stephenson and BIC, neither of which was within the section; (2) that as Schroder was the first-named holder of the management share, it alone controlled the company and as Schroder was within the section, the respondent was, under Section 14 (1) of the 1937 Act, not a subsidiary company.

Blackburn v. Close Brothers Ltd

In the High Court of Justice (Chancery Division)

June 2nd, 1960

(Before Mr Justice PENNYCUICK)

Income tax – Trade – Company appointed as secretary and registrar – Sum in consideration of termination of appointment – Whether sum taxable – Income Tax Act, 1952, Schedule D, Case I.

On May 3rd, 1950, the respondent was appointed secretary and registrar of another company for three years at a remuneration of £8,000 a year. This appointment was in succession to three other similar appointments. The board of the employer company disagreed as to the continuance of the employment of the respondent, and it was agreed that the appointment should be terminated as from July 17th, 1960, in consideration of £15,000. This sum was duly received, and was applied in reducing the value of the goodwill in the respondent's balance sheet. The respondent acted in a similar capacity for other companies. The termination of the agreement in question did not involve any reduction of the company's office accommodation.

It was contended on behalf of the appellant that the £15,000 was a trading receipt of the respondent's business. It was contended on behalf of the respondent that the £15,000 was compensation for loss of a capital asset, namely, the agreement of May 3rd, 1950. The General Commissioners decided that the £15,000 was a capital payment and not a trading receipt.

Held: the agreement of May 3rd, 1950, was one of a number of ordinary commercial contracts made by the company for the rendering of services in the course of carrying on its trade; and that the £15,000 was a taxable receipt.

Finance and Commerce

Double Tax Relief

LORD REMNANT, the chairman of Atlas Electric L& General Trust Ltd, has improved the value of the company's annual report and accounts by including his chairman's statement.

An important point with this company is the double taxation relief which it obtains. Gross income for the year to March 31st, 1960, at £1,451,396 is £161,619 or 12½ per cent up on the previous year and the total includes £172,693 against £136,566 in respect of double taxation relief.

Lord Remnant reminds shareholders that he mentioned a year ago the probability of a reduction in double taxation relief consequent on the lowering of the Trust's effective rate of tax following the changes in the 1958 and 1959 Finance Acts.

This reduction, he reports, duly took place but it has been more than outweighed this year by an increase in the number of outstanding claims that it has been possible to settle during the year, following the publication of relief rates not previously available.

Owing to the fact that these rates do not become known until after the accounts are drawn up (a delay of several years is common), the amount of double taxation relief brought to credit each year, Lord Remnant points out, is comprised of arrears for previous periods collected during the year, plus a safe provisional figure for the current year. This being the position every year, he says, it may reasonably be claimed that the total credit in this respect including these arrears, is fairly attributable to one year's revenue.

Capitalization

This year, the directors are capitalizing £4½ million of the investment appreciation and the investment item in the balance sheet now shows £16,326,601 (market value £28,397,418) against last year's £11,632,613 (market value £21,738,077). The directors have no doubt, says Lord Remnant, that a substantial part of the £16½ million will prove to be permanent.

The £4½ million write up in the investment item has been credited to capital reserve on the other side and it is proposed to capitalize the whole amount by issuing eighteen million new ordinary shares of 5s each as fully paid by way of a 100 per cent bonus to holders of the existing £4½ million of ordinary capital. At the same time, the ordinary stock is being converted into 5s shares with the object of improving its marketability. This reduction in the nominal value

of the units dealt in on the market, is general practice now in the investment trust world.

The process of cutting out dead wood has been continued and at accounting date the market value of such investments as had been held for at least one year, and from which no income had been received during the year, was no more than £123,000.

Company Socials

IT is nice to read of company shareholders getting together and enjoying themselves. It must have been quite an occasion for the members of Henekeys Ltd, the wine and spirit merchants, recently: a short annual meeting and then a wine tasting and a first-rate lunch. Some 300 shareholders attended and it can be taken, without doubt, that a good time was had by all.

Mecca Ltd, the company that runs the restaurants and dance halls – and fills the television screen with beauty contestants – started in on the annual meeting-cum-social gathering this year with a 'do' at its Streatham Locarno: annual meeting, a good lunch, a film showing the development of the Mecca business from its first coffee rooms in the City, dancing displays – 'come on, you shareholders, join in' – concluding with the National Anthem.

Sir Eric Bowater, the chairman of the Bowater Paper Corporation Ltd, takes life rather more seriously. He specializes in 'grand scale' conducted tours of the paper mills and works with special trains, and even boats, for the shareholders. The company's meeting this year, however, was a rather quieter affair at the Royal Festival Hall, London. Nevertheless there was an attendance of 2,000 – and that's something tremendous in company meeting terms. For seventy minutes Sir Eric addressed his shareholders on the company's affairs, took them on a half-hour tour of the Bowater world via the cinema screen, and then sat them all down to tea and cakes.

This is something that the Companies Act does not provide for but if shareholders like it, why not?

T.W.W.

THE commercial television companies have fair scope for entertaining shareholders at annual meetings. Mr M. T. McHatton, accountant of T.W.W. Ltd, the company which supplies independent television for South Wales and the West of England, in drawing our attention to the company's accounts for 1959, reports that non-voting shareholders were invited to attend the meeting in their number one studio at Cardiff where they saw themselves on closed circuit television by means of Ampex Videotape.

Inevitably the T.W.W. report is illustrated by 'stills' from the company's feature programmes and the accounts themselves drawn up in columnar form to show total net assets represented by total funds employed – the figure incidentally being £1,160,495 – are plain straightforward stuff clearly set out.

ATLAS ELECTRIC AND GENERAL TRUST LIMITED

REVENUE ACCOUNT FOR THE YEAR TO 31st MARCH 1960

	1959	1959
	£	£
INCOME		
Dividends and Interest	1,271,313	1,147,913
Additional Income arising from Double Taxation Relief	173,693	136,566
Rents and Fees	1,944	2,717
Underwriting Commission	5,446	2,581
	<u>1,151,396</u>	<u>1,209,777</u>
EXPENSES		
Rent, Salaries and Office Expenses	30,719	29,702
Directors' Emoluments:		
For Services as Directors	17,500	17,500
For Executive Services	3,500	3,250
Debenture Interest	87,500	87,500
	<u>139,219</u>	<u>137,952</u>
New Issue Expenses	1,312,177	1,151,825
	<u>---</u>	<u>2,611</u>
NET REVENUE BEFORE TAXATION	<u>1,312,177</u>	<u>1,149,214</u>
TAXATION thereon:		
Income Tax	509,432	485,312
Profits Tax	33,784	29,087
	<u>543,216</u>	<u>514,399</u>
NET REVENUE AFTER TAXATION	<u>768,961</u>	<u>634,815</u>
APPROPRIATIONS		
Transfer to General Reserve	200,000	175,000
Dividends, less Income Tax:		
On £4,200,000 Preference Stock	128,625	120,750
On £4,500,000 Ordinary Stock—		
Interim Dividend of 4 per cent. (4 per cent. on £4,200,000)	110,250	96,600
Proposed Final Dividend of 11 per cent. (9 per cent.) 303,188	<u>303,188</u>	<u>248,062</u>
	<u>742,063</u>	<u>640,412</u>
UNAPPROPRIATED REVENUE brought forward	<u>26,898</u>	<u>5,597</u>
UNAPPROPRIATED REVENUE carried forward	<u>282,695</u>	<u>288,292</u>
	<u>£309,593</u>	<u>£282,695</u>

CLASSIFICATION OF INVESTMENTS
(Based on Market Values)

	1960	1959
	Per cent.	Per cent.
1. DENOMINATION		
Bonds and Debenture and Preference Stocks	3.55	5.83
Ordinary Stocks	96.45	94.17
	<u>100.00</u>	<u>100.00</u>
2. GEOGRAPHICAL DISTRIBUTION		
Great Britain	72.78	66.17
United States of America	13.08	16.05
British Commonwealth, excluding Great Britain and Canada	8.18	9.32
Canada	2.88	4.58
Asia, excluding British Commonwealth	1.61	1.92
South and Central America .. .. .	.77	1.09
Europe, excluding Great Britain .. .. .	.70	.87
	<u>100.00</u>	<u>100.00</u>
3. UNDERTAKINGS		
Industrial	63.27	59.05
Banks, Insurance and Financial	14.25	13.35
Fuel, Utilities and Transport	14.13	17.94
Mines	4.31	5.31
Land and Property	2.03	1.87
Government and Municipal Loans	1.35	1.81
Plantation Produce .. .. .	.66	.67
	<u>100.00</u>	<u>100.00</u>
PRIORITY PERCENTAGES (Distribution of Net Revenue)		
	1960	1959
	Per cent.	Per cent.
Debenture Interest, net	0 — 6.5	0 — 7.3
Preference Dividend, net	6.5 — 22.2	7.3 — 25.0
Ordinary Dividend, net	22.2 — 72.4	25.0 — 75.3
Reserves and Carry Forward	72.4 — 100.0	75.3 — 100.0

THE
ACCOUNTANT
CITY NOTES

HAVING overcome some slight shock at the severity of the Chancellor's latest moves towards credit restriction, the City has this week been taking stock of the position. The behaviour of the stock-market hardly suggests that the rank and file of investors appear to see anything disastrous in a 6 per cent Bank rate and another call for special deposits and the initial break in share prices only served to bring in some 'cheap buying'.

Possibly when evidence begins to accrue that the further tightening of the credit screw is having its inevitable effect on the consumer goods industries and possibly on some sections of the capital goods industries as well, some of the 'bargains' recently made in the market may not look so cheap, but for the present the mood would seem to be 'the boom is over, long live the boom'.

The argument goes that the worst is now known, action has been taken well in time; a nip now will make a prolonged squeeze unnecessary and therefore equities are still right to buy and to hold. Looking well ahead that is, in all probability, a sound enough policy, but the present buyer must obviously look well ahead.

While the equity markets hold up well, gilt-edged stocks have been dealt another blow - not necessarily by the 6 per cent Bank rate but by the further special deposits call which must mean some further bank selling of stock. Even so, the market should now be somewhere near the bottom. At the same time it is in no fit state to carry any weight of new trustee borrowing. The equity sections, however, should be strong enough to carry the new issue business likely to develop as industrial companies accelerate the repayment of bank money by the raising of new permanent capital.

RATES AND PRICES

Closing prices, Wednesday, June 29th, 1960

Tax Reserve Certificates: interest rate (29.6.60) 3½%

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

April 22	£4 13s 0.88d%	May 27	£4 11s 1.53d%
April 29	£4 13s 0.48d%	June 3	£4 11s 1.39d%
May 6	£4 13s 4.70d%	June 10	£4 12s 1.79d%
May 13	£4 11s 1.56d%	June 17	£4 13s 7.34d%
May 20	£4 11s 1.69d%	June 24	£5 13s 7.40d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	5-5½%	2 months	5½-5¾%
Fine Trade Bills		3 months	5½-5¾%
3 months	6½-7%	4 months	5½-5¾%
4 months	6½-7%	6 months	5½-5¾%
6 months	6½-7¼%		

Foreign Exchanges

New York	2.80½-½	Frankfurt	11.70-½
Montreal	2.74½-½	Milan	1741-½
Amsterdam	10.57½-58	Oslo	20.02½-½
Brussels	139.86½-87½	Paris	13.75½-½
Copenhagen	19.33½-34½	Zürich	12.11½-½

Gilt-edged

Consols 2½%	43½xd	Funding 4%	60-90	87½
Consols 4%	66½xd	Savings 2½%	64-67	81½
War Loan 3½%	60-¾	Savings 3%	55-65	89½
Conversion 3½%	59½	Savings 3%	60-70	78½
Conversion 3½% 1969	84½	Savings 3%	65-75	71½
Exchequer 5½% 1966	99½	Treasury 2½%		43½
Funding 3% 66-68	80½	Treasury 3½%	77-80	71½
Funding 3% 59-69	80½	Treasury 3½%	79-81	71½
Funding 3½% 99-04	64½	Victory 4%		92½

FOR STUDENTS

PAYMENT FOR SHARES — II

Underwriting Commission

UNDERWRITING is a form of insurance, and is usually undertaken in connection with any large issue of shares. The fact that an issue of shares has been accepted for underwriting in reasonable terms by persons experienced in such matters is a point in its favour. In the case of a newly-formed company, underwriting insures that the required capital will be subscribed and that the company will be able to commence trading, thus facilitating the making of contracts by the company. Shares offered to existing members in connection with any reconstruction of a company's capital may also be underwritten.

Legal Provisions

Section 53 of the Companies Act, 1948, provides that it shall be lawful for a company to pay a commission to any person in consideration for his:

- (1) subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the company; or
- (2) procuring or agreeing to procure subscriptions, whether absolute or conditional, for any shares in the company;

provided that:

- (a) payment of the commission is authorized by the articles;
- (b) the commission paid or agreed to be paid does not exceed 10 per cent of the price at which the shares are issued or the amount or rate authorized by the articles, whichever is the less; and
- (c) the amount or rate per cent of the commission paid or agreed to be paid is:
 - (i) in the case of shares offered to the public for subscription, disclosed in the prospectus; or
 - (ii) in the case of shares not offered to the public for subscription, disclosed in the statement in lieu of prospectus, or in a statement in the prescribed

form signed in like manner as a statement in lieu of prospectus and delivered before the payment of the commission to the registrar of companies for registration, and where a circular or notice, not being a prospectus, inviting subscriptions for the shares is issued, also disclosed in that circular or notice; and

- (d) the number of shares which persons have agreed for a commission to subscribe absolutely is disclosed in manner aforesaid.

Save as aforesaid, the section prohibits a company from applying any of its shares or capital money directly or indirectly in the payment of such commissions whether by addition to the purchase price of property acquired by the company, or to the contract price of any work to be executed for the company. The section does not, however, affect the power of any company to pay such brokerage as it has heretofore been lawful for a company to pay.

Clause 6 of Table A provides that:

'The company may exercise the powers of paying commissions conferred by Section 53 of the Act, provided that the rate per cent or the amount of the commission paid or agreed to be paid shall be disclosed in the manner required by the said section and the rate of the commission shall not exceed 10 per cent of the price at which the shares in respect whereof the same is paid are issued, or an amount equal to 10 per cent of such price (as the case may be). Such commission may be satisfied by the payment of cash or by the allotment of fully or partly paid shares, or partly in one way and partly in the other. The company may also on any issue of shares pay share brokerage as may be lawful'.

A company has implied power to pay the usual brokerage or commission to stockbrokers acting for it, e.g., in placing shares, but in the absence of the authority in Section 53, the company would be debarred from paying such commissions as are thereby authorized, at any rate out of capital, as such payments would amount to an unauthorized issue of shares at a discount.

The section does not expressly prohibit the payment of such commission out of accumulated profits, nor does it apply to debentures, which may also be issued at a discount. Payments made in contravention of this section can be recovered from the payee only if he had actual or constructive notice of the illegality of the payment. The section authorizes payment of commission for (1) subscribing shares absolutely or conditionally; or (2) procuring such subscriptions.

The most common type of such commission is known as 'underwriting commission'. This is paid to an underwriter who undertakes, in consideration therefor, to take from the company, or otherwise secure subscriptions for, all or a proportion of such shares comprised in the issue he underwrites, as are not taken up by the public, i.e., he agrees to subscribe or procure subscriptions for the shares 'conditionally' upon their not being taken up by the public. In addition he may agree to take a number of shares 'firm', i.e., irrespective of the result of the public issue, and his underwriting commission on such shares is therefore paid for on 'absolute' subscription for shares.

Commission is also authorized to a person 'procuring' subscriptions, e.g., a stockbroker, even though the person to whom the commission is paid does not himself assume any liability to take up the shares in the event of his failing to procure others to do so. Such commission paid to a person who secures others to underwrite the issue, e.g. sub-underwriters, is termed

'overriding commission'. The payment of a commission to persons who undertake 'absolutely' to subscribe for shares is almost analogous to an issue of shares at a discount, but is not quite so, since if the company went into liquidation before the commission had been paid, the person concerned would be liable to pay the full nominal value of his shares, and would only rank with other creditors for payment of his commission, for which he would have to prove in the winding-up.

Underwriting Contract

The offer of the underwriter often takes the form of an underwriting letter in which, in consideration for the underwriting commission, he undertakes to take up such shares or proportion thereof as are not taken up by the public. The offer will not be binding, of course, until the company's acceptance thereof has been communicated to the underwriter. In the underwriting letter, the underwriter may authorize application to be made in his name for the shares for which he may become liable. When the offer has been accepted by the company, such an authority becomes 'an authority coupled with an interest' and cannot be revoked by the underwriter (*Carter v. White*, (1883) 25 Ch.D. 666). The underwriting letter is usually expressed to be based on the terms of a draft prospectus, and may provide that the offer shall not be affected by variations between the draft prospectus and the prospectus actually issued. This would not bind the underwriter, however, if the changes were such as to alter fundamentally the character of the company (*Warner International and Overseas Engineering Co Ltd v. Kilburn Brown & Co* [1914] W.N. 61).

An underwriter often passes on part of his liability to sub-underwriters, and the company should ensure that the original underwriter remains fully liable to the company or, more normally, that the company has the right to approve the sub-underwriters. Otherwise, the underwriter could transfer his liability to persons incapable of meeting such liability should it arise.

An issue of shares may be underwritten by several underwriters, each bearing a proportion of the risk, and it is necessary to apportion the liability among them if the issue is not fully subscribed by the public. In this connection, the underwriting agreements will usually state how the liability is to be calculated, having regard to shares taken 'firm' by an underwriter and to subscriptions procured by him. If the

An issue of 100,000 shares is underwritten by A. (50,000), B. (30,000) and C. (20,000). A. takes 5,000 firm and procures other persons to subscribe for 10,000. B. takes 4,000 firm. Only 60,000 shares are applied for by other members of the public.

Shares offered	100,000			
Subscribed by public..	60,000	A.(5/10)	B.(3/10)	C.(2/10)
Total liability of underwriters	40,000	20,000	12,000	8,000
Less: Firm underwriting	9,000	5,000	4,000	—
Marked subscriptions	10,000	10,000	—	—
Final liability of underwriters	21,000	5,000	8,000	8,000

agreement is that 'firm' and 'marked' (i.e. procured subscriptions, the applications being 'marked' or stamped with the name of the underwriter) shall reduce the liability of the underwriter concerned, the position can be shown as at the foot of the previous page.

If firm and marked subscriptions were dealt with in the same way as subscriptions from the general public and were not used to reduce the liability of the particular underwriter concerned, then, in the above example, the total liability of the underwriters would be 21,000 shares, of which A. would be liable for 10,500 shares, B. for 6,300 shares and C. for 4,200 shares.

Where the firm underwriting and marked subscriptions of one underwriter exceed his total liability the remaining underwriters will benefit in proportion to the number of shares underwritten by them. If, in the above example, A.'s firm underwriting amounted to 10,000 shares and his marked subscriptions to 15,000 shares, the remaining liabilities would be allocated as follows:

Shares offered ..	100,000			
Subscribed by public ..	60,000	A.(5/10)	B.(3/10)	C.(2/10)
Total liability of underwriters	40,000	20,000	12,000	8,000
Less: Firm underwriting	14,000	10,000	4,000	—
Marked subscriptions	15,000	15,000	—	—
Net liability of underwriters	11,000	5,000	8,000	8,000
A.'s surplus allocated to B. (3/5); C. (2/5)	—	5,000	3,000	2,000
Final liability of underwriters	11,000	—	5,000	6,000

(Concluded.)

LONDON STUDENTS' COLUMN

News from the London Chartered Accountant Students' Committee

Autumn Session

Monday evening lectures will commence at 5.30 p.m. The experiment of starting at 6 p.m. did not materially affect attendances and on the occasions when opinions were sought, the majority of those attending stated that they preferred a 5.30 p.m. start.

A new form of programme will be in use. Instead of the all-in-one booklet which has been the form for some time, a card giving a detailed account of events in the first half of the session together with a note of the subsequent meetings, will be distributed before the commencement of the session. This will be followed in October by a second card setting out in detail the meetings to be held in the second half of the session.

Branches

Plans are being made for the opening of a branch of the Society in Ilford, in which area over 400 of our student members live or work. It is hoped that activities may be organized for next winter.

Mr P. J. Gillam has found it necessary to resign his position as Bedfordshire Branch representative on the main committee. The branch has appointed Mr J. R. Lewis to take his place.

Students' Centre Subcommittee

The above subcommittee has had its first meeting to discuss the practicability of instituting a students' centre for the Society and it has recommended that every student member of the Society be circulated with a brief questionnaire to obtain as large a view as possible of members' wishes in this matter.

Social Activities

A party of students leaves for the island of Grado in the Gulf of Trieste on July 3rd for a fortnight's holiday

under the leadership of Mr D. R. Waters, a member of the Committee. These trips are made using the services of a travel agency and any rebates secured from the agency are divided amongst the students who take advantage of the scheme. Anyone interested in joining further trips is invited to apply to Mr Waters, care of the library.

The '59 Club' is holding a summer dance at the Coronet Club, NW8, on July 1st. The 'Taverners' are arranging a dance aboard a boat on the Thames in August, tickets £1 each.

Examination Prizes

There has been transferred from the Incorporated Accountants Students' Society to the Society the award of Morgan Prizes. There are two prizes of £3 15s each to be presented on the results of each half-yearly Final examination. When the results of the May examinations are announced, the top two students from the London Society will receive Lord Plender Prizes of £4 4s each, and the next two members will receive Morgan Prizes of £3 15s each.

Car Rally

A car rally and treasure hunt will be held in Surrey on July 23rd. Entry forms may be obtained from the library in Spencer House. The closing date for entries is Monday, July 11th.

Next Week's Meetings

The following meetings will be held during next week:

Tuesday, 7.30 p.m. at St Andrews Hall, Park Place, SW1: 'Taverners Club' debate on nuclear disarmament.

Wednesday: 'Kingsway Club' visit to the *Daily Mail*.

Thursday: Visit to Lloyds Bank Head Office (limited number). 'Taverners' monthly meeting.

Notes and Notices

THE ACCOUNTANT

Index to Vol. CXLII: January-June 1960

The general index to Vol. CXLII - January to June 1960 - is published with the present issue. The parts of this volume, with the index, can now be sent for binding.

PROFESSIONAL NOTICES

MESSRS ROBSON, MORROW & Co, of 59 New Cavendish Street, London, W1, announce that Mr J. B. CHARLES, F.C.A., C.A.(S.A.), F.C.W.A., retired from the partnership on June 30th, 1960.

Mr J. B. CHARLES, F.C.A., C.A.(S.A.), F.C.W.A., announces that, as from July 1st, 1960, he will be practising under the name of J. B. CHARLES at 52 Grosvenor Gardens House, Grosvenor Gardens, Westminster, London, SW1.

MESSRS FINNIE, ROSS, WELCH & Co, Chartered Accountants, announce that their address is now Bow Bells House, Bread Street, London, EC4. Telephone: City 5322.

MESSRS ARTHUR E. GREEN & Co, Chartered Accountants, announce that they have removed their offices to 3-4 Clements Inn, London, WC2.

MESSRS JOHN ADAMSON, SON & Co, Chartered Accountants, of 1 Chancery Place, Manchester, and Messrs JAMES CARTER & SONS, Chartered Accountants, of 14 Wood Street, Bolton, announce that as from July 1st, 1960, their practices will be combined and will be conducted by the present partners in the same names and at the same addresses as before.

MESSRS WATSON & McLAREN, Chartered Accountants, of 29 East Parade, Leeds, 1, announce that Mr RONALD HARRISON, A.C.A., who has been associated with the practice for the last three years, has been taken into partnership as from July 1st, 1960.

MESSRS PRICE WATERHOUSE & Co announce the retirement on June 30th, 1960, of Sir NICHOLAS E. WATERHOUSE, K.B.E., F.C.A., who has served for sixty years with the firm and has been a partner for more than fifty-four years. They also announce that Mr G. A. CHERRY, F.C.A., was admitted to partnership in the London and Newcastle firms on July 1st, 1960.

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co, Chartered Accountants, London, announce the formation of an associated firm carrying on practice under the same name from 16 Market Street, Newcastle upon Tyne, 1. The partners in such associated firm are Mr CHARLES ROMER-LEE, M.A., F.C.A., Mr DAVID D. RAE SMITH, M.C., B.A., F.C.A., Mr STANLEY P. WILKINS, F.C.A., and Mr J. NESS PRENTICE, M.B.E., B.A., F.C.A., of the London firm, and Mr E. M. ROBINSON, O.B.E., T.D., F.C.A., Mr G. N. TAYLOR, O.B.E., T.D., M.A., F.C.A., Mr

J. C. BENSON, F.C.A., and Mr H. J. H. SISSON, B.A., F.C.A., of the firm of WINTER, ROBINSON, SISSON & BENSON, Chartered Accountants, which firm continues to practise from the same address without any change in its constitution.

MESSRS W. LACON THRELFORD & Co, Chartered Accountants, of Liverpool House, 15-17 Eldon Street, London, EC2, announce that as at June 30th, 1960, Mr J. W. DAVIES, A.C.A., retired from the practice to take up a commercial appointment, and therefore the partnership previously carried on between Mr T. G. THRELFORD, F.C.A., and Mr J. W. DAVIES, A.C.A., was dissolved by mutual consent as at that date. Mr THRELFORD will continue to carry on the practice under the same style at the same address.

Appointments

Mr J. K. Dick, F.C.A., has joined the board of The Uganda Company Ltd.

Mr Philip Rose, A.C.A., has been appointed to the boards of Temperance Billiard Halls Ltd, Lintang Investments Ltd, Dolphin Square Ltd, Pilot Assurance Co Ltd, Capital & Provincial News Theatres Ltd, The Honywood Hotels Ltd, Reliable Properties Ltd, The Victory Real Estate Co Ltd and S. Gibson & Sons Ltd.

Mr E. J. H. Barker, F.C.A., has been elected to the executive committee of the Committee of British Employers Operating Abroad.

Mr Ian A. Ross, F.C.A., F.C.C.S., has been elected chairman of the Council of the Corporation of Secretaries for 1960-61.

Mr R. W. Hammond, C.B.E., F.C.A., is to be appointed to the board of Astley Industrial Trust Ltd.

Mr A. G. Evershed, F.C.A., and Mr E. S. H. Eales, F.C.A., A.M.INST.T., have been appointed, respectively, chief financial officer and accountant to London Transport.

Mr H. K. Douglas, M.A., F.C.A., has been appointed an additional director of Hackbridge Holdings Ltd.

Mr M. T. Cook, F.C.A., has been appointed to the board of Burt, Boulton & Haywood Ltd.

Mr Henry F. R. Catherwood, M.A., A.C.A., has been appointed a director of British Aluminium Co Ltd.

TAX RESERVE CERTIFICATES

The Treasury has announced that as from June 29th until further notice tax reserve certificates of the eighth series issued under the terms of the prospectus dated January 6th, 1959, will bear interest at the rate of 3½ per cent per annum free of tax. The rate of interest on certificates of the eighth series subscribed before June 29th will remain unchanged.

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

THE INSTITUTE'S ANNUAL SERVICE

The annual service of The Institute of Chartered Accountants in England and Wales, when the President, Council and other members attend divine worship at St Margaret's, Lothbury, London, EC2, will be held on Wednesday next, July 6th, at 1 p.m. The President will read the lesson and the sermon will be given by the Rector, the Rev. A. John Drewett, M.A., B.Sc.

The President has expressed the hope that as many members as possible will attend the service.

IN PARLIAMENT**£ Sterling: Value**

Mr LEWIS asked the Chancellor of the Exchequer, taking the £ as having a purchasing value of 20s in October 1951, what was the relative purchasing value of the £ at the latest convenient stated date.

Mr AMORY: 16s 5d in May 1960.

Hansard, June 21st, 1960. Written Answers. Col. 23.

Luncheon Vouchers

Lieut.-Col. BROMLEY-DAVENPORT asked the Chancellor of the Exchequer what is the exact nature of the inquiry which he is conducting into the question of luncheon vouchers and income tax free payments for employees' luncheons in general; and by what date he anticipates he will have some up-to-date information as to the extent of these practices and their cost.

Sir E. BOYLE: I am keeping the whole question of the taxability of luncheon vouchers under review, but I am not engaged in any specific inquiry into the matters to which my hon. friend refers.

Hansard, June 21st, 1960. Written Answers. Col. 23.

**Double Taxation Agreement:
Republic of Ireland**

Mr KERSHAW asked the Chancellor of the Exchequer if he will make a statement as to an amendment to the Double Taxation Agreement with the Republic of Ireland.

Mr AMORY: The House will recall that last year we entered into an agreement with the Republic of Ireland to make it clear beyond doubt that avoidance devices against which the two countries had enacted specific legislation could not be practised under cover of the exemptions provided by the Double Taxation Agreement with the Republic of Ireland. In view of the introduction in the current Finance Bill of further provisions against tax avoidance, a new amending agreement is being negotiated with the Republic of Ireland to restate in general terms the Agreement of last year. This Agreement will require to be validated by a clause in the Finance Bill which I shall bring forward at the report stage.

Hansard, June 21st, 1960. Written Answers. Col. 23.

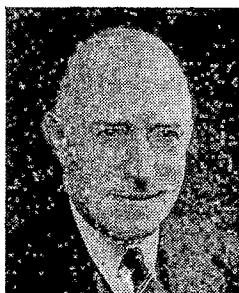
**GRADUATED NATIONAL INSURANCE
CONTRIBUTIONS**

Over the next month, employers throughout Britain – numbering about a million – will receive a four-page leaflet outlining the arrangements for collecting the graduated national insurance contributions from April 1961. The distribution is being made, on behalf of the Ministry, through Inland Revenue tax offices.

The leaflet, N.I.115, explains that stamps and cards, as well as the other approved methods of payment, will continue in use for paying the flat-rate contributions due for all employees. But the graduated contributions for those employees who are earning over £9 a week (and who are not contracted out of the graduated contributions and pensions) will be collected through the P.A.Y.E. system in association with income tax. The P.A.Y.E. deduction cards issued by the Inland Revenue for use from April 1961 will have one extra column for recording the amount of graduated contributions, and these will be paid to the Collector of Taxes with the monthly tax remittance.

**SHEFFIELD AND DISTRICT SOCIETY
OF CHARTERED ACCOUNTANTS**

At the seventy-eighth annual general meeting of the Sheffield Society of Chartered Accountants held in Sheffield on Monday, Mr J. W. Richardson, F.C.A.,



Mr J. W. Richardson

senior partner in the firm of Wells, Richardson & Co, Chartered Accountants, of Sheffield, was elected President of the Society for the year 1960-61.

Mr C. G. Buck, F.C.A., proposed a vote of thanks to the retiring President, Mr J. S. Wortley, F.C.A., for the excellent way in which he had carried out his duties during the past year. This was seconded by Mr W. R. Jenkinson, F.C.A.

Other officers of the Society for the ensuing year were elected as follows:

Vice-President: Mr A. G. Thomas, F.C.A.

Hon. Secretary: Mr M. Sheppard, F.C.A., Broomspring House, 85 Wilkinson Street, Sheffield, 10.

Hon. Treasurer: Mr R. L. Emmitt, A.C.A.

Hon. Auditor: Mr A. G. Bedingfield, F.C.A.

Newly-elected members to the committee are Messrs R. W. Allott, F.C.A., M. G. S. Frampton, A.C.A., A. F. J. Girling, F.C.A., and D. A. J. Manser, F.C.A.

Annual Report

The report of the committee records a total membership of the Society at December 31st, 1959, of 452, being an increase of twelve members.

The general programme for 1959-60 consisted of a number of lecture meetings and a visit to Newton

MOTOR — FIRE — CONSEQUENTIAL LOSS

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Chambers & Co Ltd, to see that company's computer at work. The management accounting subcommittee held two meetings: an address on 'Profit planning' being given by Mr W. J. R. McEwan, C.A., at the first meeting; the second meeting being an informal discussion. Luncheon meetings were held at Sheffield, Chesterfield, Doncaster and Rotherham during the year and were all well attended.

In September, a stand was organized on behalf of the Society at a careers convention held by the Sheffield Junior Chamber of Commerce and several hundred leaflets about the profession were distributed to would-be chartered accountants. A two-day convention is due to take place in October this year and the Society will again be taking part.

COMPUTER CONFERENCE

The second annual conference of The British Computer Society Ltd is to be held in Harrogate from next Monday to Thursday.

The conference will consist of sessions devoted to lectures followed by discussions and symposia on subjects of general interest to users and potential users of computing equipment. Among the subjects will be 'Progress towards a common language for computers', 'The use of computers in market research and statistical analysis', 'The organization of a computing centre' and 'Large-scale data processing in Government departments'.

NEW CHAIRMAN

Mr Edwin P. Hubbard, of London, has been elected the new chairman of the Association of International Accountants. Mr Hubbard is President of Edmonton Conservative Association and was a member of Middlesex County Council from 1952-55.

APPRENTICE OF THE YEAR

Mr David Allen, of Darlaston, Staffordshire, was selected the best commercial apprentice of the year in the national finals held in Birmingham last Friday of the Apprentice Award Scheme, now in its fourth year, operated by the British Junior Chambers of Commerce in conjunction with the Australian J.C.C. He receives a six months' study tour of the U.S.A.

Mr Allen, who works in the cost office at Rubery Owen & Co Ltd, Darlaston, has passed the Final examination of The Institute of Cost and Works Accountants, and is now studying for the examination in Management Accountancy. His other examination successes include both parts of The Chartered Institute of Secretaries' Final examination, for which he received two special prizes, one for the highest marks in all subjects, the other for attaining second place.

S. WALES AND MONMOUTHSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

The annual general meeting of the South Wales and Monmouthshire Society of Chartered Accountants will be held at *The Park Hotel*, Cardiff, on Thursday, July 14th, at 6 p.m.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 12.30 p.m. on Monday next in the vestry at St Mary Woolnoth Church, King William Street, EC3. The scripture for reading and thought will be 1 John, Chapter 2, verses 3 to 10 (A new commandment of light and love).

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 4TH, 1885

Extracts from a leading article entitled

STOCKTAKING

If there is one point more than another to which auditors, whose practice lies amongst manufacturers, should be especially careful, it is in regard to the item, "stock-in-trade." As a rule it is the only item in the balance sheet of a manufacturing concern respecting which the auditor has no arithmetical or book-keeping test available, and when business has not been prosperous the "stock" stands in many cases in peril of being manipulated to suit particular ends. To apply even approximate tests to the accuracy of the stock-books, either in regard to quantity, or prices, or both, in a business of any considerable size, is a work of immense difficulty, and, generally speaking, would not in the end be satisfactory. . . .

The extent of the examination of stocks depends, we imagine, on the circumstances of each case to a great extent. In all cases the extensions and additions and calculations ought to be checked. It should also be seen that the sheets are signed by the person or persons who took the stock, and also by the manager (if any) of the various departments or rooms. But it does not appear that as a general rule auditors should go further than this. To do so would in most cases call for technical knowledge, and, although a knowledge of the business is extremely useful to an auditor, he should be careful not to formally assume such knowledge. . . .

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Company Accounts

PERHAPS the most controversial of the submissions which the Council of The Institute of Chartered Accountants in England and Wales has made to the Jenkins Committee¹ in relation to the published accounts of companies, is that figures of turnover should be published. It is not suggested that a detailed trading account should accompany the statutory profit and loss account, but that turnover figures should be appended to that account, in general by way of note. A growing number of the more enlightened companies have already adopted this idea and the practice is extremely welcome to shareholders and potential creditors because it gives most useful information to those who wish to gauge the efficiency of the company and the profitability of its trade. It is, of course, a practice which has for long been advocated by this journal.

The diehards will use the stock argument that such disclosures help the company's competitors and is therefore harmful to the company. The logical development of this argument is not to publish any accounts at all. However, the implied premise that competition is something to be avoided will not receive general acceptance. If a company is not exploiting its assets efficiently, something should be done about it.

To meet criticisms of this nature, the Council recommends that the requirement to show turnover be suspended where it is likely (in the opinion of the directors) to be misleading or harmful to the company. The trouble with an exception of this kind is that it robs the general requirement of a great deal of its usefulness, and in effect makes it almost a matter of choice. There is nothing to prevent a company from adding such information to the turnover figure as it considers necessary to prevent that figure from being misleading. Indeed, the Council's own submission includes a recommendation somewhat on these lines.

One of the most confusing aspects of accounts, to the layman, is the fondness of accountants for parallel columns of figures which in some mysterious way always balance. The Institute's submission on the manner of presentation of profit and loss accounts would, if more widely adopted, make accounts much more comprehensible to the public. For better or worse the Legislature has decreed that certain items which affect profit must be shown, while others need not. It is misleading to start with a figure of 'profit' which is, in fact, a figure struck before such items as directors' remuneration and depreciation have been deducted. It is much better to

¹ A further section of the Institute's memorandum, including among others the points discussed in this article, is reproduced elsewhere in this issue.

show the true profit and then, as the Council suggests, to show by way of note what has been debited for directors' remuneration, and depreciation.

The rule which forbids the payment of dividends out of capital is not expressly stated in the Companies Act and its precise operation is a matter of considerable doubt: a doubt fostered by a number of decided cases which make it very difficult to express the rule with any brevity. The vagaries of income tax law make the matter all the more important. Some companies write up their fixed assets and apply the notional profit in the payment of a 'capital' dividend, thus giving rise to two problems: whether in company law it is permissible to pay a dividend out of a notional profit; and whether a dividend so paid is in truth 'capital' or whether the Special Commissioners can cut through such forms and tax the dividend on the ground that in reality it was the trading profit, not the notional capital profit, which produced the dividend.

The Institute's memorandum says that sound accounting principles do not permit an unrealized surplus to be treated as available for distribution in cash or *specie*, and that the present legal position should be clarified. Income tax law has reached a position where profits are said to be realized even where the proceeds of 'realization', far from being cash, are such things as shares, or even suits of clothes. A company which traded in, say, Government stocks, and which current prices show to have been profitable, might well be justified in distributing Government stocks *in specie*, instead of going through the formality of realizing them and paying the dividend in cash. One should be on one's guard against creating more offences than are necessary,

The memorandum does well to bring into prominence paragraph 15 (4) of the Eighth Schedule to the Companies Act which is hardly a shining example of the draftsman's art. It shows a view of accounting which is perhaps the result of an unfortunate lack of liaison between the legal draftsmen and the trained accountant. Paragraph 15 deals with the special requirements of a holding company's own accounts for a particular period. Paragraph 15 (4) (b) imposes certain requirements as to disclosure, in the holding company's balance sheet, of its subsidiaries' profits or losses since they became subsidiaries, so far as

they are 'not dealt with in the (holding) company's accounts'. 'Accounts' here means, of course, the accounts for the particular period, which would hardly be likely to review the subsidiaries' results for all past years since the group was formed. It follows that on a strict reading of paragraph 15 (4) (b) the holding company's balance sheet ought to carry this review, although it would really be irrelevant to the current year's trading, and would normally have been shown in the holding company's previous accounts. The Council of the Institute naturally suggests that the legislation be made to accord with actuality.

Section 161 prohibits a body corporate from acting as the auditor of a company and backs up this requirement by a £100 penalty. Nothing could be clearer than the intention that the heavy responsibility of auditing should rest on individuals. A regrettable practice has grown up whereby companies do not appoint individuals as such as auditors, but purport to appoint firms of accountants. It follows that anyone wishing to ascertain who in fact is responsible must have recourse to the Registry of Business Names, and even that may be insufficient. As auditors continue in office from year to year without reappointment, it follows that there must be a considerable number of retired accountants who, did they but know it, are still *de jure* auditors of a number of companies, although of course they are no longer active in accountancy, either in relation to those companies or at all. Conversely, new partners of existing firms may well be under the erroneous impression that they, as individuals, are auditors of a number of companies for which their firm acts.

The Council of the Institute would deal with this situation by reintroducing the necessity for annual reappointment of auditors and by providing that changes in the composition of a firm of accountants would, in effect, automatically produce corresponding changes in the individuals who are the elected auditors of the companies which have appointed the firm. This suggestion would no doubt bring the law into line with what generally happens in practice. There may, however, be something to be said for appointing specific individuals as auditors, and thus for giving companies the opportunity of reconsidering the appointment whenever one of these individuals retires from practice or whenever the existing auditors wish the company to add a new member of their firm.

FINANCE BILL

Taxing Capital Gains – I

HAVING rejected a general capital gains tax, the Government is committed to involved provisions in the Finance Bill aimed at defeating the efforts of taxpayers to turn what would normally be income into capital. We have already reviewed the provisions of clause 27 (originally clause 26) for directions to be given by the Inland Revenue in certain dividend stripping transactions. Clauses 20 to 23 (originally 19 to 22) are directed against a commonplace device whereby the shareholders of a company which has a large trading asset turn it to account by selling the shares. In view of the comparative immunity of share speculation from taxation as a trade, this has been a fairly safe device. However, it is only in certain sectors, where the use of the device is particularly blatant, that clauses 20 to 23 apply. This fasciculus of clauses has been very much amended, both at the committee stage and again on the report stage.

Clause 20 is the principal clause. It is confined to sales of shares in companies which carry on trade, and moreover, trades of a certain kind, viz.:

- (a) dealing in securities, land or building, or developing land; and
- (b) any other trade where one object forming part of the trading stock at the date of sale has a value equal to one-fifth or more of the net assets.

'Trading stock' includes work in progress (clause 41 (4) (b) and Section 143 of the Income Tax Act, 1952). Subject to certain extensions made by subsequent clauses, clause 20 is also confined to sales of shares where the purchaser has (or in consequence of the sale will have) control of the company whose shares he acquires. Sales, made or agreed upon before April 5th, 1960, 1960, are not affected.

As a result of amendments made at the report stage, the initiative for the application of the section must come from the tax inspector. It follows that the taxpayer, when filling his return, will not, in the first instance, have to rack his brain about all the sales of shares he has made, to see whether they are caught by the new legis-

lation, on pain of becoming a back duty and penalty case. The inspector certifies the facts to the Commissioners having jurisdiction, i.e. those Commissioners who make Schedule D assessments on the profits of the company whose shares are sold. He informs the Commissioners that the case is *prima facie* within the clause and notifies the seller. The latter then has an opportunity of satisfying the Commissioners that all the trading stock belonging to the company at the time of sale of the shares has been or will be disposed either:

- (a) in the course of its trade (when the company itself will pay tax); or
- (b) to a person carrying on trade such that the stock will be 'trading stock' in his hands (when any undervaluation will be taxed when he disposes of it).

If the seller cannot satisfy the Commissioners on either (a) or (b), part of the consideration he receives for the shares will be deemed to be his income, chargeable under Case VI of Schedule D. If the seller is a surtax-direction company, this income will be deemed to be investment income.

Needless to say, not all the consideration for the shares will necessarily reflect trading stock. Subsequent sub-clauses contain the most complex provisions for isolating the trading profit element. The first step in the computation is to allocate part of the sale price of the shares to the company's trading stock, in order to find out what profit the company would have made had the trading stock, not the share capital, been sold. Of course if all the shares had been sold for £50,000 and the company's only asset was trading stock, which stood in the balance sheet at £10,000, then the notional profit for the purpose of clause 20 would be £40,000.

Where the company has other assets besides trading stock, then part of the consideration for the whole share capital must be allocated to them. For this purpose the other assets are divided into three categories:

- (a) assets on which capital allowances have been made: these are taken at the income tax written down value;

(b) goodwill: this is valued at not more than the sum actually paid for it in an arm's length transaction:

(c) other assets (excluding, of course, trading stock): these are valued at open market price.

From the aggregate value of these three categories of assets must be deducted the aggregate liabilities of the company. Deducting the net amount from the consideration for the sale of *all* the share capital leaves the amount to be allocated to trading stock. If the aggregate liabilities exceed the aggregate of the three categories of assets, the excess must be *added* to the sale price of the shares, in order to obtain the figure for trading stock. Once this figure has been obtained, it remains to compute the profit the company would have made had it sold the trading stock at that figure.

Of course the clause is not confined to a sale of the whole share capital. Where the purchaser already has control it can apply to the sale of a single share. For such sales, it is necessary to blow up the sale price to the corresponding (notional) figure for the sale of the whole capital. If the shares are all one class, this will be a simple sum, based on the assumption that every share is of equal value. Where there are different classes one must as it were reverse the normal process; the trading stock itself has to be valued at the open market price (a difficult exercise) and the other assets valued on the basis indicated above. This gives what the clause calls 'the proper consideration' for all the shares.

Having computed the actual or notional sale price of all the share capital, one can then compute the fraction thereof applicable to each individual sale of shares. If there is only one class, the fraction is soon found, it will be a matter of pure arithmetic. If there are different classes of shares with different rights, the fraction is to be such as may be just, having regard to those rights.

It then remains to assess, on the seller, his proportion of the notional profit which the company would have made had it sold the trading stock. If he does not pay, the income tax and the surtax can be recovered from the company itself. For the purpose of computing what is the appropriate surtax, the income assessed is deemed to be the highest part of the assessee's income. Presumably the company which pays can recover from the assessee.

Example

On December 31st, 1960, S. sells for £20,000 his hundred of the 1,000 issued one-class shares in Boatbuilders Ltd.

At that date Boatbuilders Ltd has the following assets and liabilities:

Plant and machinery	£
(income tax written-down value) ..	15,000
Cash at bank	30,000
Goodwill (cost £10,000 when purchased from the company's founder and sole shareholder)	Nil
Stock and work in progress at cost ..	60,000
	<hr/>
	£ 105,000
Less Loan	20,000
Trade creditors	5,000
	<hr/>
	25,000
	<hr/>
Net	£80,000

'Proper consideration' for all shares	£
(£20,000 × $\frac{1,000}{100}$)	200,000
Deduct net assets (excluding 'trading stock') £80,000—£60,000	20,000
Amount of proper consideration for shares applicable to trading stock ..	<hr/>
	£180,000

One partly-finished vessel is worth one-fifth or more of the net assets; therefore clause 20 (1) (b) applies.

	£
Notional value of trading stock	180,000
Deduct Cost	60,000
	<hr/>
Notional profit of company ..	120,000
Applicable to S. (one-tenth) ..	<hr/>
	£12,000

The Inspector certifies the facts to the assessing Commissioners and S. is unable to satisfy them that Boatbuilders Ltd will dispose of all its trading stock in the course of its trade or to a person in whose hands it will be trading stock. Accordingly a 1960-61 Case VI assessment is made on S. in the sum of £12,000 being part of the £20,000 received by him when he sold his shares.

It will be seen that the seller of shares may be in a stronger position when there are two or more classes of shares, for in such a case it is first necessary to value the trading stock itself, instead of arriving at the value by a purely arithmetical process based on the actual sale price of the shares.

(To be continued.)

Australia's New Dividend Withholding Tax

WITH effect from July 1st, 1960, the Federal Parliament of Australia has introduced a new dividend withholding tax. The essential features of this new legislation involve the imposition of a flat rate of tax on dividends payable by Australian companies to non-resident shareholders, and the withholding of this tax from dividends at the time of payment. All dividends declared on or after July 1st, 1960, will be subject to the new legislation.

This method of collecting tax on dividends payable to non-residents has been prevalent in other countries for a number of years. Its introduction into the Australian fiscal system will relieve non-residents of the duty put upon them to lodge returns to the Australian Commissioner of Taxes specifying details of all income received by them from Australian companies, and they will no longer be made to subject their Australian income to assessment in the same way as Australian residents.

However, the taxpayer will be given the right to elect that the pre-existing method of assessing and collecting the tax shall apply. In this event the non-resident will be able to compute the rate of tax applicable to his income just as if he were an Australian resident, and if it is found that the flat rate of withholding tax exceeds his liability calculated on the pre-existing basis, the excess will be refunded to him. If, however, the reverse result follows it is comforting to know that no additional assessment will be raised.

The rate of withholding tax will be 6s in the £ but where a non-resident is able to satisfy the Australian Commissioner of Taxes that he is a resident either of the United Kingdom, the United States of America, of Canada or of New Zealand, he will be able to bring himself within the scope of the appropriate double taxation convention which exists between the Australian Commonwealth and these several countries, and accordingly the rate of withholding tax will be reduced by 50 per cent to 3s in the £.

Dividends paid to a United Kingdom company by one of its wholly-owned subsidiaries in Australia will be immune from the tax by reason of the

double taxation convention already in existence.

The new withholding tax will have no application in the circumstances listed below:

- (1) dividends paid to charitable and other institutions whose income is not subject to tax;
- (2) dividends paid exclusively out of mining profits which are themselves immune from tax;
- (3) dividends paid by a non-resident company;
- (4) dividends paid to a person (whether an individual or corporate body) engaged in business and maintaining a permanent establishment in Australia;
- (5) dividends paid to the trustee of an estate, the income of which does not at present belong to any particular beneficiary or beneficiaries;
- (6) dividends paid by a private company pursuant to Section 107 of the principal Act;
- (7) dividends which assume the form of bonus shares which have been distributed to existing shareholders consequent upon a revaluation of the company's assets.

This new legislation places a responsibility for withholding the tax on the particular company paying the dividend to the non-resident shareholders. It will be appreciated that the company will only be able to differentiate between a resident and non-resident member by reference to its register of members. The fact that a resident trustee who receives dividends on behalf of a non-resident beneficiary is the person who will appear as a member on the company's register gives rise to an impediment in the application of this new withholding tax. It is therefore not surprising to find that the responsibility in such circumstances is fixed upon the trustee and it is important to note that the withholding tax must be collected notwithstanding that the dividend may not in fact be remitted to the beneficiary. The fact that it is payable to a non-resident is sufficient in itself to give rise to the application of the tax.

It is also to be noted that the withholding tax will apply to the whole of the dividend, irrespective of the source of the profit out of which it is paid. Under the pre-existing legislation it was necessary to differentiate between profits realized in Australia and profits realized in countries outside the Commonwealth, but under the new legislation this differentiation no longer remains in point.

Assessment of 'New' Properties for Schedule A

by T. J. SOPHIAN

THERE has been a definite change recently in the practice with regard to assessments for Schedule A purposes. In particular, the principle of *Davies v. Abbott* (6 A.T.C. 296; 11 T.C. 575) has been affected.

In that case property had been let at a low rent in consideration for a premium. Account was taken of the premium, and the amount was spread over the term. The lease was one for fourteen years at a rent of £30 per annum for a premium of £200, the landlord being liable for repairs, and the assessment was as follows:

Rent	£
1/14th of £200 (premium)	30
Interest on premium at 5 per cent ..	14
Adjustment for landlord's 'repairing liability'	10
	14
	<hr/> £68 <hr/>

The adjustment in respect of repairs was necessary because 'annual value' is calculated on the basis of the rent which a tenant would pay, assuming that the tenant was liable for rates and the landlord for the maintenance of the property in the state requisite to command the rent.

Origin of New Practice

For the origin of this new practice, one must go back to the statement made by the Financial Secretary to the Treasury in the course of the 1956 Budget debates.

The recommendation of the Royal Commission on the assessment of property for Schedule A purposes was that the annual value should be normally fixed on the basis of either the rating assessment or the rent paid, whichever was the higher. This proposal would undoubtedly remove the present anomaly of differential assessment for rating and Schedule A.

The implementing of the proposal, however, would have given rise to unfairness because of the delay in completing the Northern Irish and Scottish assessments for rating purposes. The income tax code is the same throughout the United Kingdom so that tax would have been

charged on assessments in England on a higher basis than on assessments in Northern Ireland and Scotland. This lack of uniformity, moreover, would have continued for a number of years, because of the time-lag in completing the Scottish assessments that was to take place.

Furthermore, as far as England and Wales were concerned, agricultural land had been exempt from rating for a number of years, and no rating valuations are in existence. A special valuation of agricultural land would therefore have been necessary if the recommendations of the Commission were adopted.

An immediate Schedule A revaluation was out of the question since, in the circumstances, it would not have been simultaneously brought into operation so as to embrace property in Scotland or agricultural land in England and Wales.

Grant of Concession

It was decided at the time of the 1956 Budget that the *status quo* should be maintained as regards Schedule A values. The previous values, many of which go back to 1935-36 because there has been no revaluation since that date, accordingly remained; and there was no new assessment of existing properties except, of course, in cases where there had been substantial alterations, with the result that new units had come into being, and a liability for reassessment had arisen.

New properties raised special problems. For rating purposes, an assessment of a new property, which would include a new unit created out of old property, e.g. by conversion, was governed to a large extent by the 'tone of the list'.

The 'tone of the list' is a rating expression, and it means the general level of values of owner-occupied properties of a similar character in the particular rating area. Thus one may find that an exactly identical building may have a value of £*x* in Area 1, whereas it would have a value of £*x* plus *y* in Area 2, because of the generally higher values in the latter area. Or to take an example, a building of a specific design of specific dimensions, materials, and the like, might be worth £10,000 in Mayfair, whereas if it were transplanted to a poorer neighbourhood, it would have a value

of £5,000 only. Such a building would therefore be assessed for rating purposes according to the higher tone of the list in Mayfair, but according to the lower tone of the list in the poorer neighbourhood.

Values, however, have risen since 1935-36. The post-war tone of the list is accordingly higher in each area than the pre-war tone. If, therefore, new properties were assessed for Schedule A purposes, according to the present tone of the lists, as in fact they are for rating purposes, a grave element of unfairness would creep in. One might find that while a particular old property was retaining its pre-war, or its pre-April 1956 assessment for Schedule A purposes, an exactly identical property, because it was newly erected, or because it had become a new assessment unit by reason of conversion would be assessed under a new post-March 1956 assessment at a very much higher figure, if the current rating values were adopted for the purpose.

Toning Down of Values

Accordingly, the Government directed the Inland Revenue to 'tone down' new Schedule A assessments made after April 1st, 1956 (when the new rating valuation was being adopted), and to keep them in line with the pre-April 1956 assessments, or in other words to have regard to the appropriate pre-April 1956 tone of the list. The particular period to be taken for this purpose will no doubt vary according to the particular development that has taken place in that area.

Thus in an area which has been newly developed since the war, the tone of the list as at the date when the development took place may have to be regarded. Generally, however, in applying the concession one would take the latest rating figures for similar properties in force prior to April 1st, 1956.

On the other hand, where the area is an old area, which has seen little or no development at all, the pre-war tone of the list may even have to be adopted when making new assessments.

It is important to note, however, that this particular basis of assessment of new properties is merely concessionary. The concession will apply to new properties whether they are dwelling-houses, or commercial buildings, and whether they are of entirely new construction, or are converted.

But the concession on the other hand is limited to owner-occupied properties, and does not extend to properties which are let, except in cases where Section 18 of the Finance Act, 1957,

operates, or the letting is at a low rent for a premium.

Section 18, it will be recollected, was enacted to meet the decision in *Gatehouse v. Vise* (36 A.T.C. 56; 37 T.C. 439), where it was held that the assessment in respect of a property which was let out in parts was to be made on the landlord of the whole property under Section 109 (1) (c) of the Income Tax Act, 1952, and not on the individual occupiers under Section 113 of that Act.

Under Section 18 of the Finance Act, 1957, however, each part separately let may now be treated as a single unit of assessment, and the assessment may be made on the tenant.

In such cases, although the properties may be let, the concessionary basis of valuation will be applied in respect of 'new' properties.

Rented Properties in General

In the case of rented properties in general, however, the problem does not appear to be so great. If a rent is available for the purpose of assessment, and the rent is in accordance with current values, the assessment will have been based thereon and will be the proper assessment. In such a case the landlord will suffer the appropriate deduction from the rent. If the assessment is low, and the rent happens to be higher, the position will be adjusted, since the landlord will have to bear an excess rent assessment.

On the other hand, the position would be otherwise where the rent is low in comparison with the full annual value and a premium has been paid by the tenant. If, of course, the rent was low, and no premium had been paid, the letting itself would be suspect, and might properly be disregarded. Where, however, a premium was paid, the tenant may be regarded as having in a sense purchased an interest in the property in consideration of the premium, so that he should be treated as if he were in much the same position as an owner-occupier. Accordingly, the concession will be applied to him, and the property will be assessed to Schedule A in accordance with the appropriate pre-April 1956 tone of the lists.

As the concession would be applied to such cases, where a premium has been charged, the principle of *Davies v. Abbott* would not be operated. And, indeed, it may be said that there can be extremely few cases in which that principle would now be applicable at all. At the same time, that case is still the law, and the method of assessment adopted would be followed whenever the circumstances were such as not to warrant the grant of the concession.

The Institute of Chartered Accountants in England and Wales

Memorandum on Company Law
submitted to the Company Law Amendment Committee

Last week we reproduced part of the Institute's fifty-six page memorandum to the Jenkins Committee covering the first fifteen heads of evidence. We now reproduce a further part covering heads of evidence 16 to 22 which include the Council's important submissions relating to published accounts and the appointment of auditors. Reproduction of the memorandum will be concluded in next week's issue.

Head No. 16

TAKE-OVER BIDS

78. For the purpose of this memorandum a 'take-over bid' is defined as a general offer to acquire shares or other securities of a particular class or classes, usually with a view to obtaining a controlling interest in the equity capital of the company and involving both a time-limit for acceptance of the offer and a minimum volume of acceptances. It does not therefore include offers to acquire shares piecemeal from individual shareholders privately or through the normal market for the shares.

79. The change of control which results from a successful take-over bid is part of the process whereby two or more companies are amalgamated or one company is acquired by another. Such amalgamations or acquisitions may be economically desirable and are normal features of an economy based on free enterprise. To prohibit or discourage them would tend to create rigidities and therefore to hamper business development in a progressive economy. Nevertheless some safeguards are needed to ensure that persons whose shares are the subject of a take-over bid are given sufficient information to enable them to obtain a balanced view of the merits of the bid and that the purchase price will be paid.

80. Such safeguards could be provided by means of a general code of conduct, not itself having statutory force. To create an effective code of conduct however it would be necessary to channel all take-over bids through a number of organizations whose eligibility for that purpose would need to be specified by statute or by an effective non-statutory authority. This would tend to restrict freedom of enterprise and as this would be undesirable the Council considers that the matter should be dealt with by legislation so that any company or other person would be free to make a take-over bid provided there is compliance with the provisions of the law. Accordingly the following submissions, made under the headings set out in the questionnaire, are on the basis that safeguards should be provided by legislation.

(a) Procedure

Submissions

81. *It should not be permissible to make a general offer to shareholders to purchase their shares or part thereof unless the offer satisfies the conditions for a 'valid bid' as set out below.*

82. *The conditions to be satisfied for a 'valid bid' should be:*

- (a) *there shall be disclosure of the identity of the bidders and of the number of shares held by them, directly or indirectly, at the time when the bid is made; there shall also be disclosed the terms of any collateral agreement to transfer the shares to a third party in the event of the bid being successful*
- (b) *where the bid involves payment for the shares in cash there shall be deposited with the company a letter from an approved organization stating that the full cash amount required to implement the bid is available; for this purpose an approved organization means a member of the Bankers Clearing House or a body approved for this purpose by the Board of Trade*
- (c) *where securities (either alone or together with cash) are offered in payment for the shares the bid shall be accompanied by such information about those securities as is considered necessary by The Stock Exchange, London, or by the relevant prescribed stock exchange where the securities are not dealt in on The Stock Exchange, London*
- (d) *where securities are offered with cash as an alternative the bid shall be accompanied by the information referred to in (c); and there shall be deposited with the company either a letter as in (b) or a letter from an exempt dealer under the Prevention of Fraud (Investments) Act, 1958, stating that adequate arrangements have been made to underwrite in full the cash alternative*
- (e) *if the bid is for part but not the whole of the shares of a particular class it shall be on the basis that if acceptances are received relating to a greater number of shares than that in respect of which the bid is made then the number of shares to be acquired by the bidders from each of the shareholders shall be reduced rateably, so far as practicable, according to the number of shares in respect of which the bid is accepted by each shareholder; a bid on a 'first come first served' basis should not be permissible*
- (f) *where the bidders make it a condition of the bid that a minimum volume of acceptances must be received they shall undertake, as part of the offer, not to declare the offer to have become unconditional without at the same time disclosing the number of shares in respect of which the bid has been accepted.*

83. Where a bid is communicated direct to the shareholders by the bidders it shall be the duty of the bidders to declare, as part of the offer, that the conditions for a valid bid have been satisfied; and they shall notify the full terms of the bid to the directors of the company.

(b) Securing disclosure of information on which shareholders can form an opinion

84. The submissions made under (a) and (c) of this Head are intended to ensure that shareholders are given information which will enable them to obtain a balanced view of the merits of a bid.

(c) Functions of directors

Submissions

85. It should be the duty of the directors of the company to decide within seven days of receiving a bid (or of receiving details of a bid made direct to the shareholders) whether the conditions for a valid bid have been satisfied; if so, the directors shall immediately give preliminary details of the bid to any stock exchange on which the shares are quoted.

86. As quickly as possible (within a period to be prescribed by the Act) after the directors have decided that there is a valid bid they should send to the shareholders concerned:

- (a) details of the bid, including all the information referred to in (a) to (f) of paragraph 82 above (unless the bid has been made direct to the shareholders by the bidders) together with a statement whether there has been any material change in the financial and trading position of the company since the last balance sheet and, if so, particulars of such change
- (b) the directors' recommendation to accept or not to accept the bid and their reasons therefor, or a statement that they offer no advice
- (c) a statement of the directors' beneficial interest in the shares of the company and in shares of any company associated with the bidders and the basis on which compensation, if any, is to be paid to the directors for loss of office and any other inducement offered to the directors which is not available to shareholders generally.

87. Shareholders should be given at least fourteen days from the issue of the information referred to in the preceding paragraph to decide whether to accept the bid.

88. Accounting information given in any statement relating to a bid should not be described as 'audited' unless the auditors concerned have approved the information in the context in which it appears.

89. Penalties should be prescribed for failure by the directors or the bidders to comply with the requirements of the Act and for giving defective information or acting in a reckless manner; but no responsibility should rest on the directors for the accuracy of any information supplied to them by the bidders.

(d) Disclosure of identity of bidder

90. See paragraph 82 (a) above.

(e) The financing of such transactions

91. See paragraph 82 (b), (c) and (d) above.

(f) Disclosure of directors' interests - compensation for loss of office (Sections 191-194, Companies Act, 1948)

92. See paragraph 86 (c) above.

(g) Application of provisions regarding compulsory acquisition of shares of dissenting minority (Section 209, Companies Act, 1948)

Submission

93. Section 209 should be amended so that when approval has been given by the holders of not less than 90 per cent of the shares it would be permissible to proceed under the section without waiting for the expiration of four months after the making of the offer.

Head No. 17

PROSPECTUSES - STATEMENTS IN LIEU OF PROSPECTUSES - OFFERS FOR SALE - ISSUES OF SHARES TO EXISTING SHAREHOLDERS

(a) Adequacy of protection afforded to investors by existing law

94. In general the existing law is adequate for the protection of investors except for:

- (a) the ability of a unit trust to invite the public to purchase units without issuing anything comparable with the prospectus requirements relating to a company (see Head No. 19)
- (b) the need for a review of the requirements to be satisfied by persons who invite the public to deposit money or to make loans

Submissions

95. In addition to the prohibition relating to exempt private companies referred to in the submission in paragraph 22 of Head No. 3, there should be an investigation to determine what conditions should be satisfied by persons who invite the public to deposit money or to make loans; in particular, consideration should be given to the disclosure to be made about the financial position and earnings in advertisements, the way in which funds are invested and the contents of accounts or returns to be issued or made available for inspection.

96. (The Council has deleted this paragraph.)

(b) Usefulness and necessity of the existing provisions

97. The existing provisions of the Companies Act, 1948, relating to prospectuses, statements in lieu of prospectus, and offers for sale are found in practice to work well. There are however a few changes which could usefully be made when the Act is being amended.

98. The Third, Fourth and Fifth Schedules require reports to be made on the profits and losses of the company, or any business to be acquired, for the five financial years immediately preceding the issue of a prospectus or the delivery of a statement in lieu. It is however the practice of The Stock Exchange, London, to require the report to cover a period of ten years and it would be appropriate to make this a statutory requirement.

99. Similarly it would be appropriate to extend to ten years the period of five years specified in paragraph 19 (1) (b) of the Fourth Schedule which requires reports on the rates of dividends paid.

Submission

100. *The Third, Fourth and Fifth Schedules to the Companies Act, 1948, should be amended so as to require reports on the profits and losses and rates of dividends to be in respect of ten years, instead of five years; but a prescribed stock exchange should have power to reduce this period in the same way that it is able to issue a certificate of exemption under Section 39 (1).*

101. The Third, Fourth and Fifth Schedules require that the assets and liabilities of a business or company to be acquired shall be stated as at the last date to which the accounts of the business or company were made up. While it is difficult to fix an arbitrary period it is highly desirable that an unduly long period should not have elapsed between the date to which the accounts were made up and the date of the issue of the prospectus or offer for sale or the delivery of the statement in lieu.

Submission

102. *The Third, Fourth and Fifth Schedules to the Companies Act, 1948, should be amended so that the statements of assets and liabilities required thereby shall be based on accounts made up to a date not earlier than one year before the issue of the prospectus or offer for sale or the delivery of a statement in lieu; but a prescribed stock exchange should have power to extend this period.*

(c) Certificates of exemption (Section 39, Companies Act, 1948)

103. Section 39 (1) permits a prescribed stock exchange to give a certificate of exemption from compliance with the Fourth Schedule on the ground that compliance would be unduly burdensome in the circumstances to which the section relates. There is no power of exemption on the ground that to comply with the schedule would be misleading or irrelevant.

104. By reason of Section 30 (1) the power of exemption under Section 39 (1) applies also to a statement in lieu of prospectus where a private company alters its articles so as to cease to be a private company. The power of exemption does not however extend to the statement in lieu of prospectus required by Section 48 and there appears to be no reason for this limitation of the power.

Submission

105. *Section 39 should be extended so that a prescribed stock exchange would be permitted to issue a certificate of exemption:*

- (a) *on the ground that compliance with the requirements would be misleading or irrelevant*
- (b) *in respect of the statement in lieu of prospectus required by Section 48.*

Head No. 18

CONTROL OVER BUSINESS OF DEALING IN SECURITIES

106. The Council does not wish to comment.

Head No. 19

UNIT TRUSTS AND 'OPEN END MUTUAL FUNDS'

Note. — The subheadings below were not shown in the questionnaire.

Need for amendment of the basic legislation

107. A unit trust (sometimes called an 'open end' trust or mutual fund) enables an investor to acquire, by a single purchase, an interest in a wide spread of investments in securities dealt in on a recognized stock exchange. The investor is relieved of the responsibility of selecting and managing a suitable portfolio of securities; his risk of loss through capital depreciation and falling off of dividend income is minimized because any one company represents only a small fraction of his total investment; and he can at any time realize the whole or part of his investment by selling back to the managers of the trust at their 'bid' price of the day, which is computed by reference to the stock exchange prices of all the underlying securities held by the trust. The managers recoup their expenses and provide their remuneration for maintaining a market in the units out of the difference between the 'offer' price at which they sell units and the 'bid' price at which unit holders may sell back to the managers. Their management remuneration for other services usually takes the form of an annual or semi-annual charge based on the market value of the portfolio.

108. A unit trust thus provides investment facilities that are not otherwise available except to investors with ample means. This is no doubt why there has been a large expansion in unit trust activity during recent years, when the expanding economy of this country has resulted in many people of limited means wishing to invest with the minimum of risk and with the opportunity of participating in the growth in income and capital value of industrial and commercial investments.

109. The safeguards needed for the protection of the investors in a unit trust (in addition to skill and honesty on the part of the managers) are:

- (a) that the investments held by the trust and the income therefrom should be in safe custody, for which purpose trustees are a party to the trust deed
- (b) that the managers should account periodically to the unit holders with sufficient information to show whether their management of the affairs of the trust has been in the interests of the unit holders; on this aspect of the matter the present position needs to be improved.

110. The present position is governed primarily by the Prevention of Fraud (Investments) Act, 1958, under which the Board of Trade may declare a unit trust to be authorized. The conditions for authorization are specified in Section 17 (1) and one is that the trust deed must provide, to the satisfaction of the Board of Trade, for the matters specified in the First Schedule. This has been amplified by a statement of Board of Trade 'requirements', a copy of which can be obtained only by special application to the Board of Trade. In later paragraphs of this Head submissions are made for improvement of the substance of the present requirements laid down by statute and the Board of Trade, but in addition their form is in need of improvement to

ensure that they are readily available in consolidated form for the benefit of those who invest in unit trusts as well as those who undertake the formation and operation of such trusts.

111. Basically a unit trust is similar to a company. The position of unit holders is analogous to that of shareholders and the position of the managers analogous to that of directors. In principle therefore it would be desirable to require unit trusts to be incorporated (there is at present no such requirement) and to comply with legislation similar in principle to company law, but with such differences in detail as are necessary to take account of features peculiar to unit trusts. These would include suitable power to reduce capital, otherwise a unit trust would not be able to reduce the number of units in issue; at present this can be done by cancelling units bought back from unit holders instead of holding them for reissue. Without this facility a unit trust would be in difficulty in a period when the number of units which it is required to buy back from unit holders is in excess of the number it can sell to new unit holders, with the result that investments have to be sold to provide the funds to pay for the units bought back.

Submission

112. *Unit trusts should be required to be incorporated under a new Act relating specifically to the formation, operation, management and winding-up of unit trusts; this Act, supplemented as necessary by statutory orders, should deal comprehensively with the whole of the law affecting unit trusts.*

113. In the following paragraphs submissions are made for improvement of the present requirements for an authorized unit trust as laid down by statute and the Board of Trade. The substance of these submissions is applicable whether or not the submission in the preceding paragraph is adopted.

Accounts issued to unit holders

114. Paragraph 6 of the First Schedule to the Prevention of Fraud (Investments) Act, 1958, requires the trust deed of an authorized unit trust to provide for the circulation to unit holders of accounts relating to the trust, including accounts of the managers in relation to the trust and statements of their remuneration in connection therewith. This general provision is amplified considerably by the 'requirements' of the Board of Trade (see paragraph 110 above) which have the effect that certain information must be circulated to unit holders at least once a year and certain information must be circulated to them at the end of each distribution period (which in practice is usually half-yearly). There is no statutory or Board of Trade requirement specifically imposing a duty on the managers to see that books of account in respect of the trust are properly kept.

115. The information required to be circulated annually consists of the accounts of the managers in relation to the trust, giving specified information and including disclosure of:

- (a) the percentage gross profits (before any deductions), or losses, from the sale of new units, the resale of units and the sale of underlying securities of liquidated units; the methods to be used for computing these percentages are set out

- (b) losses by the managers on holding securities and on holding units.

116. The significance of the requirement to circulate accounts of the managers in relation to the trust is that the managers of some unit trusts deal not only as agents for the unit holders but also as principals for themselves and therefore make profits or losses in both capacities. Profits or losses can be determined from the records, but to analyse them in the manner indicated in the preceding paragraph involves the making of certain assumptions. To some extent therefore the circulated information is questionable and if this information is to be given there should be disclosure of the basis on which it has been computed.

117. The information required to be circulated at the end of each distribution period consists of:

- (a) a statement showing how the amounts distributed to unit holders are made up; this must show (in relation to some convenient number of units, which in practice is usually taken as one unit) the gross amount of the income distribution and the amount of income tax deducted therefrom, the amount of any capital distribution and its source, the amount of all deductions whether by way of annual or semi-annual charge with an indication of the provisions in the trust deed which authorize such deductions and information concerning amounts included in the distribution by reason of securities being acquired or disposed of cum dividend or ex dividend
- (b) a statement showing, as at the end of the distribution period, what percentage of the total value of the trust funds was invested in each investment and what percentage was represented by cash
- (c) the ex dividend 'bid' price on the last day of the period.

118. It would seem desirable that the accounts circulated to unit holders should be in the form of a balance sheet and income and expenditure account rather than in the form of the statements now used. Provided the accounts are required to show a true and fair view this would be a more positive method of requiring the managers to provide the unit holders with all relevant information. The state of affairs and the transactions of the trust would be disclosed in full instead of only by the unsatisfactory means of giving percentages and amounts per unit.

Submissions

119. *The managers and/or trustees of a unit trust should be under statutory obligation to ensure that books of account are properly kept in respect of the trust and the transactions relating thereto.*

120. *An income and expenditure account in respect of each distribution period and a balance sheet as on the last day of the period should be circulated to the unit holders.*

121. *The balance sheet should show a true and fair view of the state of affairs of the trust. Specifically the balance sheet should show:*

- (a) *the assets and liabilities of the trust; the investments and other assets should be stated at amounts arrived at on the same basis as that used for the purpose of determining the managers'*

prices for units computed ex dividend as on the balance sheet date, and the basis should be stated

- (b) *the amount, if any, set aside for distribution to unit holders*
- (c) *undistributed income*
- (d) *the balance on capital account, supported by a statement summarizing the transactions on capital account during the distribution period*
- (e) *the value (computed to the nearest one-tenth of a penny) of one unit, arrived at by aggregating the balance on capital account with the undistributed income and dividing this amount by the number of units on the balance sheet date*
- (f) *the ex dividend 'bid' price of a unit on the balance sheet date*
- (g) *what percentage of the total value of the trust funds was, as on the balance sheet date, invested in each investment and what percentage was represented by the excess of amounts receivable and cash over amounts which are to be distributed for the distribution period and any other amounts payable.*

122. *The income and expenditure account should show a true and fair view of the income and expenditure for the distribution period. Specifically this account should be required to show in summarized form and with appropriate description the dividend and interest receivable, the total management remuneration and other expenses and the amount available for distribution to unit holders. If any part of the management remuneration or other expenses is charged to capital the amount so charged should be included by transfer in the income statement to offset the expenses to which it relates.*

123. *The corresponding amounts for the immediately-preceding period should be given for all items shown in the balance sheet and the income and expenditure account.*

124. *The accounts should show an analysis of the managers' profits or losses distinguishing those arising on the sale of new units, those arising on the resale of units, those arising on the sale of underlying securities, those arising from the holding of securities and those arising from the holding of units; and the basis adopted for distinguishing these amounts should be indicated.*

Audit

125. Paragraph 6 of the First Schedule to the Prevention of Fraud (Investments) Act, 1958, requires the trust deed of an authorized unit trust to provide for the audit of the accounts relating to the trust, including the accounts of the managers in relation to the trust and the statements of their remuneration. This general provision is amplified by Board of Trade 'requirements' but these are inadequate in that:

- (a) *the auditors must be 'approved by the trustee', but no qualification for appointment is specified*
- (b) *the report to be made by the auditors is of limited scope, requiring them to express their opinion whether the accounts to be circulated are properly drawn up in accordance with the books and records to disclose the profits or losses accruing to the managers from the trust*

- (c) *they do not lay down the procedure for the appointment and removal of auditors.*

Submissions

126. *The audit requirements for unit trusts should be strengthened by provisions similar to those under company law relating to qualification for appointment as auditors, the procedure for appointment and removal, the auditors' rights of access to records and information, and the report to be made by the auditors.*

127. *Assuming the adoption of the submissions in paragraphs 119 to 124, the auditors should be required to state in their report whether in their opinion the accounts to be circulated have been properly drawn up so as to give a true and fair view of the state of affairs of the trust as on the balance sheet date and of the transactions relating thereto for the period ended on that date and to disclose the profit or loss accruing to the managers for that period.*

128. *The auditors' report should also contain statements which in their opinion are necessary if:*

- (a) *they have not obtained all the information and explanation which to the best of their knowledge and belief were necessary for the purposes of their audit; or*
- (b) *so far as appears from their examination, books of account have not been properly kept in respect of the trust; or*
- (c) *the accounts to be circulated are not in agreement with the books.*

Invitations to invest

129. Managers of unit trusts make widespread invitations to the public to purchase units. Such appeals may be by advertisements in the Press or on television, pamphlets, and arrangements to buy and sell units over the counter at branches of banks. Managers are not required to comply with anything comparable to the requirements under company law relating to a prospectus or offer for sale.

Submission

130. *The managers of a unit trust should be required to ensure that before any units are sold by them or their agents to a new investor he shall be supplied with a copy of the latest accounts of the trust with an indication of the permitted range of investments.*

Head No. 20

REDUCTION OF CAPITAL AND PURCHASE BY A COMPANY OF ITS OWN SHARES

131. Section 27 provides that, subject to certain specified exceptions, a company cannot be a member of a company which is its holding company and any allotment or transfer of shares in a company to its subsidiary shall be void. The specified exceptions do not cover the position where, since July 1st, 1948, company A. has acquired shares in company B. and subsequently company B. wishes to acquire a majority holding of shares in company A., thereby making A. a subsidiary of B. It is understood that the Board of Trade has expressed the view that in such circumstances:

- (a) there is nothing objectionable in company B. acquiring shares in company A. and thus becoming its holding company; but if this is done, Section 27 will operate to make void the earlier allotment or transfer of shares to company A. by company B.
- (b) to avoid this difficulty, company A. would be well advised to dispose of its holding in company B. before company B. acquires a majority holding of shares in company A.

132. To require company A. to dispose of its shares in company B. is consistent with the object of Section 27, but it does not seem reasonable to require this to be done before company A. becomes a subsidiary of B. Moreover, it is not clear how Section 27 operates where company A. acquired its shares in company B. from a third party, as it is difficult to envisage that the transfer by the third party could be declared void.

Submission

133. Section 27 should be amended so that in circumstances such as the foregoing there would be a specified period (not longer than one year) within which the subsidiary's holding of shares in the holding company shall either:

- (a) be disposed of by the subsidiary; or
- (b) be cancelled by the holding company as an effective reduction of capital, provided the shares are fully paid.

134. The Council understands that legal opinions are now being expressed which interpret Section 54 in a manner which could not have been intended. The object of the section (apart from the special circumstances dealt with in the proviso) is to prohibit financial assistance by a company for the purchase of its own shares or those of its holding company. The section includes the words 'directly or indirectly' and 'financial assistance for the purpose of . . . a purchase . . . made by any person of . . . any shares in the company' and it appears that these are being interpreted to mean that if company A. (using its own resources or a bank overdraft or money borrowed from a third party) purchases the shares of company B. it is thereafter unlawful for company B. to transfer to company A. either by way of loan or dividend any part of the cash or other assets held by B. at the time when the shares were acquired by A.

Submission

135. Section 54 should be amended to make it clear that provided the shares of a company are acquired and the transaction is completed without using in any way the resources of that company it shall not be unlawful thereafter to transfer funds of that company by way of loan or dividend to the purchaser of the shares.

Head No. 21 ACCOUNTS

Do the accounts require the disclosure of sufficient information about the financial position of the company, including its subsidiaries and associated companies? Are all the existing provisions necessary and useful in present-day conditions?

136. Many detailed requirements regarding the accounts of companies are set out in the Eighth Schedule to the Companies Act, 1948, and there are some sections of the Act which require disclosure of particular matters, for example Section 196 regarding directors' emoluments, pensions and compensation. The overriding and fundamental requirement is however contained in Section 149 which provides that the balance sheet shall give a true and fair view of the state of affairs of the company as at the end of its financial year and the profit and loss account shall give a true and fair view of the profit or loss for the financial year. In addition, Section 150 requires group accounts where applicable.

137. These requirements were a notable advance on the meagre requirements of the 1929 Act. In general they have worked remarkably well and may be said to be both necessary and useful and to have achieved substantially the objective of adequate disclosure of information. It is not however surprising that experience has shown some relatively minor respects in which the requirements could be improved and also that there are a few controversial matters involving important principles. The Council wishes to emphasize that these should not be allowed to overshadow the satisfactory experience of the general operation of the present requirements.

(a) Revaluation of fixed assets and use of any resulting surplus

138. If the fixed assets of a company are written-up on the basis of a valuation it is important that the surplus arising from the writing-up should be dealt with on sound accounting principles, which do not permit an unrealized surplus to be treated as available for distribution in cash or specie. There are differing views as to what is at present the legal position and it is desirable that this should be clarified.

(b) Share premium account

Note. - The next two paragraphs relate to a point of detail arising on Section 56. The Council hopes to submit a supplementary memorandum on the principle involved in Section 56.

139. Section 56 (2) permits the share premium account to be used for writing off preliminary expenses and the expenses of any issue of shares or debentures. The section does not refer specifically to stamp duty on capital and it would appear therefore that such duty cannot be written off against the share premium account unless the duty can in law be regarded as an expense of an issue of shares or debentures. The stamp duty is payable when the authorized capital is increased or when a company creates loan capital of such a description as to be capable of being dealt with on a stock exchange. The increase in authorized capital or the creation of the loan capital is not necessarily followed immediately by an issue of shares or debentures and it is therefore not clear whether the stamp duty can be regarded as an expense of an issue of shares or debentures which can properly be written off against the share premium account.

Submission

140. Section 56 (2) should be amended so as to make it clear that the share premium account may be applied

to write off any stamp duty paid on the creation of share capital or loan capital.

(c) Use of pre-acquisition profits of subsidiaries

Note.—The next two paragraphs relate to what appears to be a drafting error in the Eighth Schedule. The Council hopes to deal in a supplementary memorandum with the general question of pre-acquisition profits and the considerations arising on mergers and reorganizations of companies.

141. Paragraph 15 (4) of the Eighth Schedule contains detailed provisions regarding information to be disclosed where group accounts are not submitted. The intention appears to be to ensure that the shareholders in the holding company shall, in relation to their share of the annual and accumulated profits or losses of the group as a whole, be furnished with information equivalent to that which they would have been given if there had been consolidated accounts dealing with all the companies in the group. On a strict reading of items (b) and (c) of paragraph 15 (4) the intention does not appear to have been achieved. The Council is advised that the references to 'the company's accounts' in (b) and (c) relate in law only to the accounts of the year and not also to those of prior years. Paragraph 15 (4) therefore has the presumably unintended effect of calling for the disclosure of useless figures of profits less losses of subsidiaries for the whole period from their acquisition less only amounts dealt with in the holding company's accounts of the year and not after deducting amounts dealt with in earlier accounts of the holding company. In 1948 the Board of Trade authorized the Council to state that no exception would be taken by the Board of Trade to the information required by paragraph 15 (4) being dealt with on the lines indicated in the submission below.

Submission

142. Paragraph 15 (4) of the Eighth Schedule should be amended to as to make it clear that (a) and (b) thereof require the following information in respect of the aggregate profits less losses (or vice versa) of subsidiaries:

- (a) *the amount which has neither been dealt with in the holding company's accounts of the year nor in its accounts of any prior year; and*
- (b) *the amount dealt with in the holding company's accounts of the year sub-divided to distinguish the amounts derived respectively from current and other results of the subsidiaries dealt with.*

(d) Description of reserves

143. The Council does not wish to comment, but submissions are made later in paragraphs 168 to 173 on certain aspects of the present requirements relating to reserves and provisions.

(e) Definition of profits

144. The general aim of a profit and loss account should be to show a true and fair view of the profit or loss of the year, before and after taxation, based on the consistent application of recognized accounting principles. The account should be presented in a form which affords as clearly and readily as circumstances permit a comparison with the results of previous years.

145. There are differing opinions as to what should be included in the amount shown as the profit or loss of a year. Some consider that it should take into account, subject to separate disclosure of material items in certain circumstances, all profits or losses arising or ascertained within the year, including those items which are the result of activities of the year, and others which are the consequence, ascertained within the year, of transactions of earlier years. Others hold that the amount shown as the profit of the year should be restricted to the results of the operations of the year and that all other items should be excluded from the profit or loss of the year as being adjustments of earlier years and should be so shown in the profit and loss account.

146. Each of these opinions has arguments in its favour and it cannot be said that either of them is generally accepted to the exclusion of the other. Provided that the account is prepared in conformity with either of these opinions and is the result of the consistent application of recognized accounting principles it can properly be said to be true and fair. If a change is made in the accounting principles applied and the effect is material, that fact and its consequences would need to be disclosed.

147. From a business point of view, a trading profit or loss does not arise until all trading expenses such as depreciation, directors' emoluments and auditors' remuneration have been charged. An amount arrived at before charging such expenditure is not significant information and should not be described as 'profit'.

Submission

148. *As far as is practicable, the profit and loss account should show as a minimum:*

- (a) *the trading profit or loss of the year computed after charging depreciation, directors' emoluments and all other trading expenses; any necessary disclosure of depreciation or other items charged or brought to credit in arriving at the trading profit or loss should be made by way of note*
- (b) *items of income and expenditure (for example, investment income and debenture interest) not covered by (a) above but which the Act requires to be stated separately*
- (c) *profit before taxation, the taxation chargeable and the profit after taxation*
- (d) *exceptional credits and charges which are neither taken into account in (a), (b) or (c) above nor, in appropriate circumstances, taken direct to reserve.*

(f) Exemption of banks, assurance, shipping companies from some of the accounting provisions of the Companies Act, 1948

149. The Council does not wish to comment; except in relation to auditors (see paragraph 197 under Head No. 22).

Other Matters

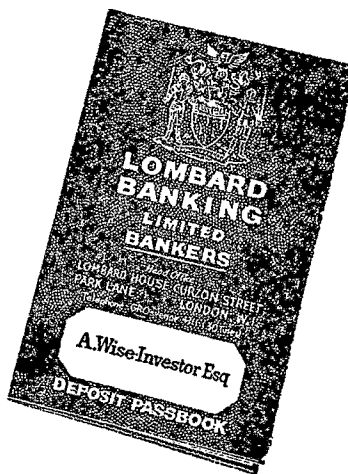
150. The Council wishes to comment on the following matters relevant to this Head but not specifically covered by items (a) to (f) of the questionnaire.



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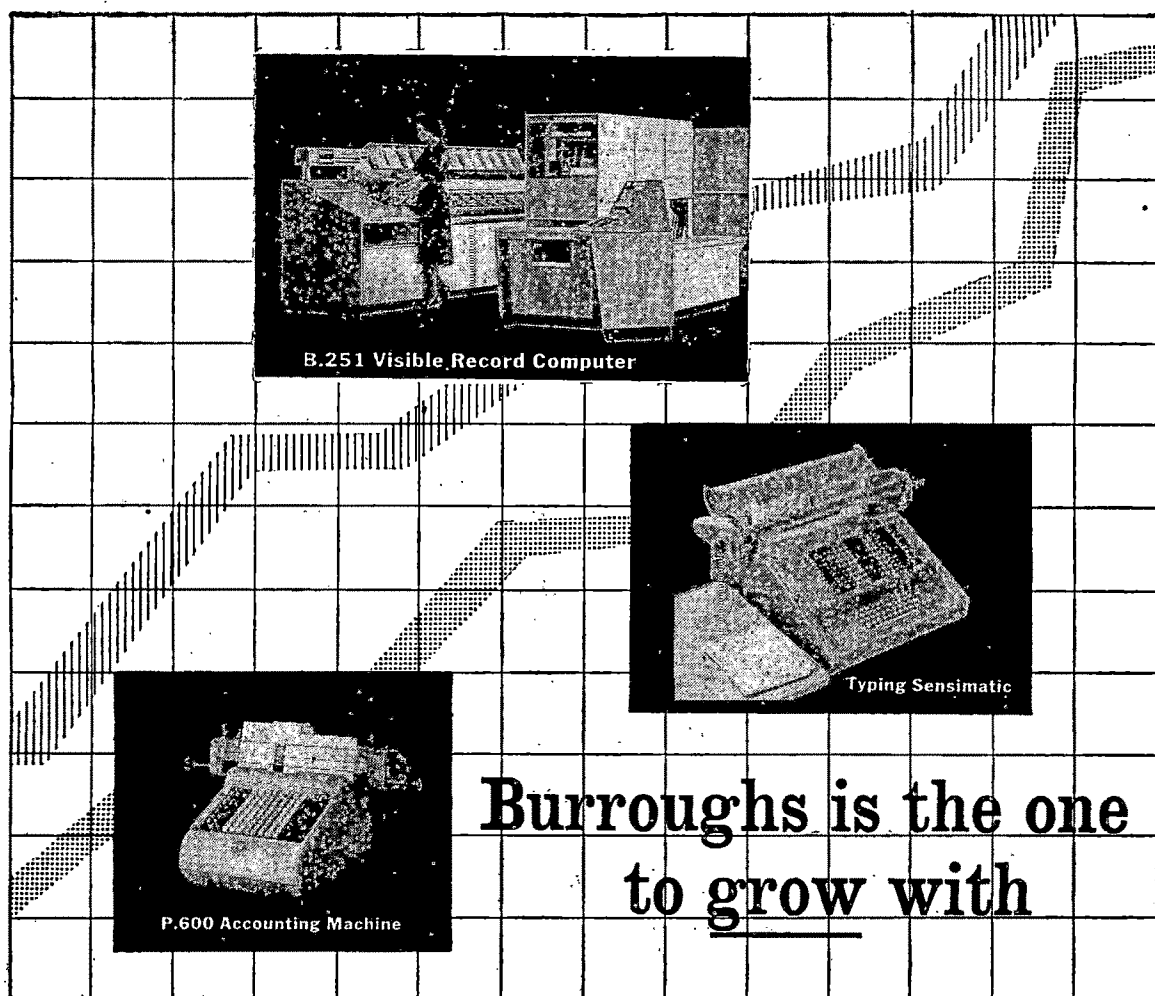


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Turnover

151. In recent years a relatively small but increasing number of the larger companies has adopted the practice of disclosing turnover, that is to say the revenue for the accounting period from sales or from the performance of the operations or services which the business provides. This practice has not however been adopted by the large majority of companies. Disclosure of turnover is normally of considerable value in studying the trend of a company's business and its activity, its efficiency in using its resources and its profitability in relation to the amount of business done.

152. The arguments usually advanced against the disclosure of turnover are:

- (a) that it might damage the company's business by providing information for competitors; and
- (b) that a definition of turnover would present great difficulties in regard to some types of business and the amount shown might be misleading.

153. The risk of damage is primarily a matter for consideration by business concerns. Some guidance can however be obtained from experience in certain overseas countries where disclosure of turnover is required; the Council is not aware that this requirement has proved harmful. If it were decided to require disclosure under United Kingdom company law it would be desirable to permit exemption where the directors consider that disclosure would be harmful to the company. The risk of damage might be greater for a medium-sized or small undertaking than for a large concern with many differing activities.

154. The definition of turnover might be particularly difficult for some classes of company, for example those carrying on business as contractors or in the field of hire-purchase. Moreover care would be needed to ensure that the amount shown as turnover would not give a misleading view of the trend of the business; for example where purchase tax or excise duty forms a significant part of the turnover and there have been material changes in the rate of tax or duty. Care would also be needed in regard to inter-company transactions within a group.

Submissions

155. *Turnover for the accounting period should be shown in the profit and loss account by note or otherwise, unless the directors consider that disclosure is likely to be misleading or harmful to the company. If this submission is not acceptable in relation to companies generally it should apply to all companies whose share or loan capital is dealt in on a prescribed stock exchange.*

156. *The turnover to be disclosed should be the full amount receivable in respect of sales, or from the operations or services conducted by the business, during the accounting period; provided that the amount shall be so described or amplified as to prevent it from being misleading in relation to the comparative amount for the preceding period or, where given, the amounts for a series of preceding periods.*

157. *In relation to a group of companies:*

- (a) *the group accounts should disclose the consolidated turnover of the group, excluding so far as*

practicable all amounts relating to transactions between companies in the group; and

- (b) *a holding company or a wholly-owned subsidiary should not be obliged to disclose its own turnover.*

Directors' emoluments

158. Where an employee of a company retires on pension and is given a seat on the board of directors it is not clear from Section 196 (1), (2) and (3) that such a pension need not be shown separately. Similarly it is not clearly provided that where a person has not been a director during the whole of the period qualifying for pension the pension should be apportioned.

Submission

159. *Section 196 should be amended so as to make it clear that a pension granted to an employee of a company who, on retirement, is given a seat on the board of directors does not fall within the section; and that where an employee became a director before retirement the section applies only to that part of his pension which is attributable to his service as a director.*

160. Section 196 (2) refers to benefits otherwise than in cash. Since such benefits have now been brought into the ambit of taxation (Part VI of the Income Tax Act, 1952) it would clarify the position under the Companies Act if, in relation to directors chargeable to United Kingdom income tax on the emoluments of their office, regard were had only to benefits charged to income tax.

Submission

161. *Section 196 should be amended so that, in relation to directors chargeable to United Kingdom income tax on the emoluments of their office, benefits 'otherwise than in cash' relate only to benefits charged to United Kingdom income tax.*

162. If the requirements of Section 196 are not complied with, subsection (8) places a special duty on the auditors to give the required particulars in their report 'so far as they are reasonably able to do so'. There seems however to be no statutory obligation for directors to give in writing to the company information regarding emoluments.

Submission

163. *Section 198 (1) should be amended so that a notice in writing shall be required from each director covering all pensions, compensation and emoluments, including all benefits received otherwise than in cash.*

Auditors' remuneration

164. Paragraph 17 of the Eighth Schedule requires a consolidated profit and loss account to combine the information contained in the separate profit and loss accounts of the company and of its subsidiaries. The separate accounts generally show the auditors' remuneration only in those cases where it is not fixed by the company in general meeting (paragraph 13, Eighth Schedule) and not necessarily then in the case of overseas subsidiaries. Consequently it is valueless to show in the consolidated profit and loss account an aggregate of the items of auditors' remuneration which happen to appear in the separate accounts. Normally, such an aggregate would not be the total auditors'

remuneration within the group and its omission from the consolidated accounts would not be contrary to the object of paragraph 13 of the Eighth Schedule, which is to ensure that the members of a company shall be aware of the cost of auditing their company's accounts if the amount has not been fixed in general meeting. It may also be noted that in the case of some overseas subsidiaries there is doubt as to who should be regarded as auditors for the purpose of aggregating remuneration.

Submission

165. *The Eighth Schedule should be amended so as to make it unnecessary in consolidated accounts to show an aggregate of auditors' remuneration; the remuneration of the holding company's auditors (if not fixed by the company in general meeting) should continue to be shown in its own profit and loss account or in the consolidated profit and loss account if the holding company's account is so framed.*

Tax charge

166. Paragraph 12 (1) (c) of the Eighth Schedule requires the charge for United Kingdom taxation on profits to include 'as United Kingdom income tax any taxation imposed elsewhere to the extent of the relief, if any, from United Kingdom income tax'. The use of the word 'as' has the effect of requiring overseas tax to be described wrongly as United Kingdom income tax. Moreover the reference to relief from 'United Kingdom income tax' does not recognize that under present taxation regulations relief from overseas taxation is given first against profits tax.

Submission

167. *The provisions of the Eighth Schedule relating to the disclosure of tax on the profits of a year should be amended to require, in the case of companies subject to overseas tax, disclosure of:*

- (a) *the amount, before double-tax relief, of United Kingdom tax, distinguishing profits tax from income tax*
- (b) *the amount of double-tax relief*
- (c) *the amount of overseas tax.*

Reserves and provisions

168. Paragraphs 12 (1) (e) and (f) of the Eighth Schedule provide that amounts set aside to, or withdrawn from, reserves and certain provisions shall be shown in the profit and loss account. It is assumed from paragraph 7 (1) that the said items (e) and (f) apply only to amounts charged or credited to revenue, and do not necessarily require the passage through the profit and loss account of additions to or withdrawals from reserves and provisions which would not normally be passed through that account.

Submission

169. *Paragraph 12 of the Eighth Schedule should be amended so as to make it clear that additions to, or withdrawals from, reserves and provisions which would not normally be passed through the profit and loss account need not be shown in that account.*

170. In view of the definition of 'provision' in paragraph 27 of the Eighth Schedule, it is not clear that amounts set aside for expenditure to be met in the future fall within the definition of 'provision'. In certain businesses it is normal practice to set aside each year amounts to meet accruing expenditure, such as on repairs, in order that the profits of a year may be correctly computed.

Submission

171. *It should be made clear that an amount necessarily set aside in accordance with a regularly employed accounting practice in order to meet accruing expenditure, such as that on repairs and other maintenance charges, is a provision; but that amounts so set aside need not be stated separately in the profit and loss account.*

172. Some companies holding investments as fixed assets adopt the practice of deducting proceeds of realizations from the cost of the investments as a whole, with the result that the amount at which the investments are stated in the balance sheet represents the cost of the investments held reduced by profits (less losses) on the realization of investments no longer held. There is therefore no disclosure of the actual cost of the investments held or of the amount of profits made on the realization of investments.

Submission

173. *It should be made clear that for balance sheet purposes:*

- (a) *the cost of investments means the actual cost of the investments held on the balance sheet date*
- (b) *the profits from realization of investments previously held should be treated as reserves except to the extent that they have been utilized to meet losses or otherwise used for some appropriate purpose; and the movements on such reserves should be shown.*

Distinction between fixed and current assets

174. Paragraph 4 (2) of the Eighth Schedule requires that fixed assets shall be distinguished from current assets. The division of assets into either 'fixed' or 'current' is not always practicable and could be misleading. (This is sometimes the case with interests in subsidiaries.)

Submissions

175. *Where neither 'fixed' nor 'current' is a true and fair description of assets, there should be a requirement that the assets shall not be described as either but that the nature of the assets shall be stated clearly.*

176. *It should be made clear that where an asset is classified as neither 'fixed' nor 'current' the method of arriving at and stating the amount of a fixed asset, set out in paragraph 4 (3) and (except in the case of interests in subsidiaries) paragraph 5 of the Eighth Schedule, should be applied.*

Shares of a subsidiary held by a fellow subsidiary

177. Although there is a requirement in paragraph 15 (2) of the Eighth Schedule for a holding company

in its balance sheet to set out separately from all other assets the aggregate amount of its interests in subsidiaries, there is no similar requirement for a subsidiary to show separately in its balance sheet shares which it holds in a fellow subsidiary (that is to say another subsidiary of the same holding company).

Submission

178. Shares held by a subsidiary in a fellow subsidiary should be shown separately in its balance sheet.

Redeemable preference shares

179. Paragraph 2 (a) of the Eighth Schedule requires any part of the issued capital that consists of redeemable preference shares and the earliest date on which the company has power to redeem those shares to be specified. There are other material facts relating to the redemption of such shares which should be indicated in the accounts; examples are the latest date on which redemption may take place and any premium payable on redemption.

Submission

180. There should be disclosure in a company's accounts of all material facts relating to the redemption of any redeemable preference shares of the company.

Head No. 22

AUDIT

(a) Qualifications and appointment of auditors

181. The United Kingdom accountancy bodies which are recognized by the Board of Trade under Section 161 (1) (a) should now be specified in the Act. This would be in conformity with the practice adopted in other legislation specifying qualification for appointment as auditor.

182. Section 161 enables the Board of Trade to authorize for appointment as auditor a person having a suitable accountancy qualification obtained outside the United Kingdom. It is appropriate, and highly desirable in connection with overseas relations, that this power should be grouped in the section with the United Kingdom bodies and not, as now, with the two classes of unqualified persons who may act as auditor.

Submission

183. Section 161 (1) should be amended so as to provide that a person shall not be qualified for appointment as auditor of a company unless either:

(a) he is a member of one of the following bodies:

The Institute of Chartered Accountants in England and Wales

The Institute of Chartered Accountants of Scotland

The Association of Certified and Corporate Accountants

The Institute of Chartered Accountants in Ireland

provided that any of the foregoing bodies may be

removed from and any other body of accountants established in the United Kingdom may be added to this provision by regulation requiring an affirmative resolution of both Houses of Parliament and provided further that the Board of Trade may authorize a person to be appointed as auditor by virtue of suitable qualifications obtained outside the United Kingdom; or

(b) he is for the time being authorized by the Board of Trade to be so appointed as having obtained adequate knowledge and experience in the course of his employment by a member of a body of accountants specified in (a) above or as having practised in Great Britain as an accountant before August 6th, 1947.

184. It is usual for accountants to practise in partnership and to be appointed as auditors in their firm name. The Act does not however refer specifically to the appointment of a firm as auditors, except for the reference to Scottish firms in Section 161 (4). (In Scotland a partnership firm is in law an entity separate from the individual partners and as this separate entity cannot possess any accountancy qualification a Scottish firm would be ineligible for appointment as auditors if the Act did not include Section 161 (4)).

185. The absence of specific reference to the appointment of a partnership firm (other than a Scottish firm) does not in practice cause any general difficulty. It is assumed that the appointment of a firm is in law the appointment of all the partners of that firm and if all the partners are eligible for appointment then the firm itself is so eligible. Where however there is a change in the constitution of a partnership doubts may arise regarding the correct procedure under the Companies Act. These doubts do not normally give rise to practical difficulty but this is not always the case and it seems desirable that the legal position should be clarified.

186. In the few cases where difficulty does arise the position is complicated by the automatic reappointment provisions of Section 159 (2) whereby at any annual general meeting a retiring auditor is reappointed without any resolution being passed, except in the circumstances specified in the section. There is no necessity for the automatic reappointment procedure and its removal would facilitate the clarification of the position of partnership firms.

Submissions

187. The practice which obtained under the 1929 Act whereby a substantive resolution was required for the appointment of auditors at each annual general meeting should be revived with the amendments mentioned below.

188. Subsection (2) of Section 159 should be replaced by a provision whereby, subject to paragraphs 189 and 190 below, it shall not be competent to a company to make any change in the auditors at an annual general meeting unless notice has been given of an intention to submit at that meeting a proposal which would have the effect that any of the retiring auditors who are eligible and willing to act shall not be reappointed or that a named person other than any of the retiring auditors be appointed. Such notice would be subject to the provisions of Section 160.

189. Section 161 should be extended so as to make it clear that, subject to paragraph 190 below:

- (a) persons who are in partnership may be appointed as auditors in their firm name provided that all are eligible for appointment
- (b) such an appointment will constitute the appointment jointly of all those who are partners in the firm at the time of appointment and will not be affected as regards the surviving or continuing partners by the subsequent death or retirement of a partner; the appointment of a retiring partner in such a firm will cease upon his retirement from the partnership
- (c) the appointment of the continuing partners will not be affected by the subsequent introduction of a new partner or more than one new partner who jointly with those who were partners at the time when the firm was appointed or last reappointed will, therefore, be deemed to be auditors and eligible for reappointment; Section 159 and Section 160 (1) shall apply to such a person as if he were a retiring auditor and special notice shall not be required in relation to his appointment.

190. The proposals in paragraph 189 above should be subject to an overriding provision to the effect that a casual vacancy within the meaning of Section 159 (6) shall be deemed to arise where:

- (a) more than one-half of those who were partners in the firm at the time when the firm was appointed or last reappointed have ceased to be partners; or
- (b) the number of new partners introduced into the firm exceeds the number remaining of those who were partners at the time when the firm was appointed or last reappointed

and the auditors shall be under obligation to notify the company of the facts required to enable its directors to deal with such a casual vacancy.

191. Subsection (6) of Section 159 (which enables the directors to fill a casual vacancy) should be extended to require the directors to report the facts in their next report to the company in annual general meeting and to require an affirmative resolution at that meeting as a condition precedent to the reappointment of an auditor appointed to fill such a vacancy.

192. It is not unknown for a person to be nominated as auditor of a company without his knowledge. Apart from the fact that he may not be prepared to act this causes difficulty in relation to professional conduct on a change of auditor.

Submission

193. Section 160 should be amended so as to provide that notice of the intended nomination shall be sent to the person nominated as well as to the existing auditor.

194. Section 148 requires the annual accounts to be laid before the company in general meeting but does not require that it shall be the annual general meeting. Auditors are appointed at an annual general meeting to hold office until the conclusion of the next annual general meeting. It is therefore possible for the auditors to be removed (strictly in compliance with Section 160) by calling an annual general meeting at which the

removal of the auditors is the only business. In this way auditors can be and have been removed before they have been able to carry out their duty of reporting to the shareholders on the annual accounts. The accounts, reported on by new auditors, are subsequently laid before the company in general meeting. While it may sometimes be useful this facility is open to abuse and the Council considers that the balance of advantage lies in removing it.

Submission

195. In order to prevent the removal of auditors before they have carried out their duties (which at present can be achieved by calling an annual general meeting at which no business is transacted other than the passing of a resolution to remove the auditors) and also for the reason indicated later in paragraph 220 of Head No. 26 the Act should be amended to provide that the annual accounts with the auditors' report thereon shall be laid before the company at its annual general meeting.

(b) Duties and responsibilities of auditors

196. The essential duty resting upon auditors is to report whether in their opinion the accounts present a true and fair view. To arrive at an opinion they apply their professional skill and judgment in examining the accounts and the underlying records. Having done so they ought not to be required to do more than report their opinion, with such reservations as may be necessary. The Ninth Schedule however requires that their report shall contain statements on all the matters set out in the schedule, whereas on most of those matters it is unnecessary to comment unless the auditors are dissatisfied. The schedule should therefore be revised to enable the auditors to report their opinion without specifying matters of detail on which they have satisfied themselves in reaching that opinion. This would greatly shorten the auditors' report in normal cases and would result in any reservations being more readily apparent to the shareholders.

197. The Ninth Schedule is also unsatisfactory in that it does not recognize that the accounts of a company may not show a true and fair view if it is a banking, insurance or other company which under Part III of the Eighth Schedule is exempted from disclosing certain information essential to the presentation of a true and fair view.

Submission

198. The Ninth Schedule should be amended to the form set out at the end of this Head.

199. Auditors of holding companies would be assisted considerably if they had a statutory right to obtain information from the auditors of its subsidiaries. The Council considers that such a right is a necessary counterpart to the statutory obligation resting on the auditors of a holding company to report on the group accounts.

Submission

200. Section 162 (3) (which entitles the auditor to require from the officers of the company such information and explanation as he thinks necessary) should be extended to entitle the auditor to require such informa-

tion and explanation as he thinks necessary from the auditors of subsidiaries of the company.

(c) Exemption of exempt private companies from the provisions of Section 161, Companies Act, 1948

201. The Act requires every company to prepare annual accounts and have them audited for the shareholders. A person is not eligible to be appointed auditor unless he is qualified or authorized as required by Section 161 (1) but the proviso thereto enables any unqualified or unauthorized person to be appointed where the company is an exempt private company. This exception is unsound and creates dangers to which a company should not be permitted to expose itself. The exception was introduced in the mistaken belief that there were not sufficient qualified auditors to act for all exempt private companies. The information available to the Council indicates that relatively few exempt private companies have auditors who are not qualified or authorized as required by Section 161 and therefore the Council is satisfied that the removal of the exception would not create difficulty for exempt private companies in obtaining qualified auditors.

202. The preceding paragraph is concerned with the professional competence of the auditor to undertake the onerous statutory duty with which he is charged. Section 161 (2) contains provisions directed towards ensuring that the auditor shall be independent but the proviso thereto gives an important exception; it enables an exempt private company to appoint as auditor a person who is a partner of or in the employment of an officer or servant of the company. The Council is unanimous in the view that a person who is in the employment of an officer or servant of the company should not be eligible for appointment as auditor. The Council is not unanimous about the exception in favour of a partner of an officer or servant of the company;

(a) some members of the Council consider that the independence of the auditor is of paramount importance, that an important matter of principle is involved and that, regardless of the way in which the exception may have hitherto operated in practice, the whole of the exception should be withdrawn

(b) a majority of members of the Council point out however that the Council has not seen any evidence that abuse has flowed from the exception, which in their opinion has been of the greatest benefit to small family companies for which it is an economical and convenient arrangement; they consider that the exception should continue to be available to private companies which wish to take advantage of it.

203. If, in conformity with the view expressed in (b), the exception is not withdrawn the Council considers that there should be disclosure where applicable of the fact that advantage has been taken of the exception.

Submissions

204. *The proviso to Section 161 (1) (under which a person who is neither qualified nor authorized may be appointed auditor of an exempt private company)*

should be deleted; if it were considered to be necessary to preserve existing rights the deletion could be without prejudice to the appointment or re-appointment of a person as auditor of any company of which that person was auditor on an appointed date.

205. *The proviso to Section 161 (2) (which permits a person who is a partner of or in the employment of an officer or servant to be appointed auditor of an exempt private company) should be amended so that:*

- (a) *a person who is in the employment of an officer or servant of the company shall not be qualified for appointment as auditor*
- (b) *there is a statutory obligation to disclose in the annual accounts or in documents annexed thereto the fact, if it be so, that the auditor is a partner of an officer or servant of the company.*

Proposed revised Ninth Schedule

See paragraphs 196 to 198

Statements to be contained in the auditors' report

206. (1) In their report the auditors shall state:

- (a) whether in their opinion the balance sheet and profit and loss account of the company or, in the case of a holding company submitting group accounts, the said accounts of the company and the group accounts, are properly drawn up in accordance with the provisions of this Act so as to give a true and fair view of the state of the company's affairs at the date of its balance sheet and of its profit or loss for its financial year ended on that date; or
- (b) in the case of a company entitled to the benefit of Part III of the Eighth Schedule to this Act, whether in their opinion the balance sheet and profit and loss account of the company or, in the case of a holding company submitting group accounts, the said accounts of the company and the group accounts, are drawn up in accordance with the provisions of this Act so as to disclose, to the extent required by the Act for the class of company concerned, the state of the company's affairs at the date of its balance sheet and its profit or loss for its financial year ended on that date.

207. (2) The auditor's report shall contain statements which in their opinion are necessary if:

- (a) they have not obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit; or
- (b) so far as appears from their examination, books of account have not been properly kept by the company; or
- (c) proper returns adequate for the purposes of their audit have not been received from branches not visited by them; or
- (d) the company's balance sheet and profit and loss account are not in agreement with the books of account and returns from branches.

(To be concluded.)

Weekly Notes

The Scottish Institute's Examinations

IN the May 1960 examinations of The Institute of Chartered Accountants of Scotland, there were 157 successful candidates in the Final examination. The Albert J. Watson Prize for the candidate obtaining the highest marks in the First Division was won by Mr William Patterson, of Aberdeen.

In the Intermediate examination there were 168 successful candidates, and the Sir William McLintock Prize for the two candidates obtaining the highest and second highest marks in the Second Division was awarded to Mr Jeremy Morton Burnet, of Edinburgh, and Mr Robert Thom, of Glasgow.

The names of the successful candidates in the Final and Intermediate examinations (Second Division) appear elsewhere in this issue.

The Irish Institute's Examinations

ATOTAL of 257 candidates sat for the examinations of The Institute of Chartered Accountants in Ireland, held in May, and 111 (43 per cent) were successful.

There were 68 candidates for the Final, of whom thirty-six (53 per cent) passed, compared with 41 per cent in November 1959. The First Place and the Arthur H. Muir Memorial Prize were awarded to Mr Peter Alexander O'Hara, B.COM.SC., of Belfast. In the Intermediate examination there were 165 candidates, of whom sixty-seven (40.6 per cent) passed. Passes in the November 1959 examination were 49.5 per cent. The First Place and the John Mackie Memorial Prize were awarded to Mr Daniel Delaney, B.COMM., of Cashel, Co. Tipperary.

The full list of successful candidates, together with a summary of results, appear on another page of this issue.

Closing Stages of the Finance Bill

AQUITE remarkable array of Government amendments to the Finance Bill was introduced during the report stage this week. Covering more than ten pages of the order paper, they included: the bringing into effect of a new tax treaty with the Republic of Ireland, the object of which is to facilitate anti-avoidance legislation in the two countries; a new clause to graduate estate duty liability under Section 46 of the Finance Act 1940 (benefits from companies) where the right to benefits is surrendered within five years of the death; another new clause to modify, in relation to partnerships, the provisions in clause 50 relating to assessments out of time.

Other changes included amendments to clause 20 (sales of shares in trading companies) which are dealt with in a leading article in this issue.

The debate on the report stage commenced last Tuesday evening and continued on Wednesday and Thursday, after this issue went to press, and the Bill was to have its third reading yesterday (Friday). If this time-table has been adhered to, this year's Finance Bill – a measure of considerable complexity and consequence – will have run its course in the House of Commons in exceptionally quick time. This may well be associated with the reports that Mr Amory intends to relinquish the Chancellorship very shortly.

Floating Charges for Scottish Companies?

IN Scotland, a debtor cannot give a charge on his goods and chattels without delivering them to the creditor. Still less can a Scottish company grant a floating charge over its assets, although there is some authority for saying that an English company can give a floating charge over its Scottish assets. The Law Reform Committee for Scotland has recommended that the law in that country should be changed in this respect. The recommendation is contained in the Committee's eighth report, published last week as a White Paper.¹

The Committee recommends that incorporated companies only should be allowed to create floating charges over all their property, to secure prior indebtedness as well as current cash advances; and that the floating charge should become fixed only in the event of liquidation. There would be no provision for the appointment of receivers, the unpaid holder of the charge would have to petition for the winding up of the company. Particulars of all such floating charges would be registered in a special register of charges to be kept by the Registrar of Companies in Edinburgh.

Evidence to the Committee leading to this recommendation was given by The Institute of Chartered Accountants of Scotland, which expressed the view that the inability to create a security over 'movables' was one of the reasons why insufficient Scottish capital was invested in Scotland, and was a barrier to successful economic activity. The Institute, which was the only body to give evidence on the question of receivers, expressed the view that it would be unwise to introduce the appointment of receivers into Scottish law.

More on Company Law Reform

THE Corporation of Secretaries has submitted a detailed memorandum of suggestions to the Jenkins Committee on the reform of company law. The Corporation deprecates the issue of non-voting ordinary shares and makes suggestions to discourage the practice. It also thinks that uncontrolled nominee holdings are undesirable and asks for the imple-

¹ Cmd. 1017. H.M.S.O. 1s 3d.

mentation of the Cohen Committee recommendation for disclosure, with the substitution of 10 per cent for the 1 per cent mentioned in that recommendation. The Corporation would make it as easy to alter a company's objects as it is to alter the articles. On take-over bids, the memorandum makes detailed suggestions for the disclosure of information so that recipients of bids should be less in the dark. There are a number of recommendations on returns and accounts. One is that the directors should issue half-yearly reports of the company's progress. It is suggested that the time limit for the return of allotments should be extended to the end of the renunciation period. Finally, the Corporation considers that there should be some control over the appointment of secretaries of public companies, to ensure that the appointees are likely to be equal to their onerous and exacting duties.

Computer Society Conference

THE second annual conference of the British Computer Society was held from Monday to Thursday of this week at Harrogate.

Nearly 400 delegates from the United Kingdom and European countries attended, and the United States and Canada were also represented. Papers were given on electronic computing techniques and their application in the fields of commerce, industry and science; these sessions were followed by discussions and symposia on subjects of general interest to users and potential users of computing equipment. A report of the conference will appear in our next issue.

The British Computer Society was formed in 1957, largely on the initiative of the London Computer Group whose concern in data processing lay principally in accounting and management control applications. Once established, however, the Society grew rapidly in size and so did its interests. Today, the total membership exceeds 2,000.

The Society is organized into regional branches throughout the United Kingdom. Two specialist groups have also been formed: the business group caters for those interested in the application of computers and allied techniques to problems in business, commerce, local and national government, industrial management, and similar fields, while the scientific and engineering group caters for those whose interests lie in the development of computing and data-handling equipment, and in the application of such equipment to scientific and engineering problems generally.

Cotton Finishing Scheme

LAST week proposals were published for the reorganization of the finishing end of the cotton textile industry. The original plan covering spinning, doubling and weaving was published last autumn, but there has been delay at the finishing end in the first instance, because there is no readily identifiable

unit of machinery which could be used as a basis as there is in spinning and weaving.

The finishing scheme, like the previous ones, has been worked out by Mr A. G. B. Burney, O.B.E., B.A., F.C.A., who, as well as being director of reorganization at the Cotton Board, is a partner in the firm of Binder, Hamlyn & Co. It is estimated that about 30 per cent of the present plant in textile finishing is redundant. Under the scheme, compensation will be paid only for the scrapping of a complete production unit; nothing will be paid for disposing of part of the unit. The Government will pay two-thirds of the cost of compensation provided certain minimum targets are achieved. Compensation will be payable to a production unit which closes down and scraps its equipment at a rate equal to half the written-down value of all the plant and machinery capable of being used at April 24th, 1959, so far as the finishing activities of the unit are concerned, plus 3s in the £ of turnover, less the cost of direct materials of the unit during the last complete financial year which ended not later than October 31st, 1959. Re-equipment grants are not included in the scheme. This was not unexpected since the problem of this part of the industry is surplus capacity, not out-of-date plant.

The minimum targets set represent about 20 per cent of the capacity of the finishing process. If the desired figure of 30 per cent is achieved, the Government is expected to pay out about £2.5 million in compensation.

Where Farmers Fail

A FORTHRIGHT article published in *The Times* 'Supplement on Agriculture' last Tuesday, entitled 'Farms should be run as businesses', takes the farming community to task for its failure to develop scientific business management, although the author attributes the 'greatest single reason' for this to ignorance of the subject. Nearly ten years ago, he comments, scientific farm budgeting was made available to farmers, so that a farm's trading account could be compared with economic standards collected by the universities. This simple technique, he goes on, of analysing a trading account from which a budget could be formed is only half-heartedly applied throughout the industry. Few farmers seek advice on budgeting from the National Agricultural Advisory Service (with but one district officer for every 700 farmers, the service would be swamped if only 25 per cent of the farmers applied for advice). Until steps are taken in the promotion, research and education of management, the writer concludes, agriculture will remain politically at a disadvantage and economically vulnerable.

It appears that initially the accent should be on education, and in this respect those accountants whose farmer clients look to them primarily as tax advisers, would do well to make the most of what opportunities arise to inculcate a knowledge of the advantages of efficient costing and budgeting.

Laugh While You Learn

MR CECIL A. FRANCIS is chief of the Building Advisory Service of the National Federation of Building Trades Employers. He is also, judging from his recently published case history of the imaginary firm of A. Head Ltd, a pamphleteer of some merit.¹ He describes the small building and decorating business begun by Albert Head in 1926 with a capital of £750 and follows, or rather invents, its fortunes

¹ *A Building Firm Steps Out*, by Cecil A. Francis. (*The Builder*, 4 Catherine Street, WC2. 2s 6d net.)

and misfortunes through thirty amusing pages until, at the end, he leaves it a prosperous company.

The case history appeared originally as a series of articles in *The Builder* and has been brought together in the present form at the request of firms in the trade who wish to distribute copies to their executive staff and foremen. A more palatable way of demonstrating the significance of sound accounting, costing and business management could not have been devised and some excellent line drawings in the Thurber manner by John Rae aptly illustrate the text.

This is My Life . . .

by An Industrious Accountant

CHAPTER 32

MY sales manager arrived in my office in jubilant form to say he was expecting a visit from a very important customer indeed, ready to place a really worth-while order and looking for exceptionally big credit. Would I please do my best to meet his requirements.

So we examined the available evidence together. Exhibit A was the account card for several years back, showing big orders, slow payments by instalments, and deliveries pruned down while we pressed for settlement of the overdue. He owed us over £1,000, very much overdue, and had lost his discounts owing to his delays. This is always a warning.

Exhibit B was the latest bank report which was cautiously optimistic, but guarded. Exhibit C was the file of comments from our travellers, going back over the years, describing an old family business, fine premises and connections, and the customer himself . . . able and experienced . . . lives well . . . popular locally . . . drinks. The picture was building up to an amber light signal. The sales manager put in an eloquent plea for increased credit, stressing that this customer had never yet failed us, really, but I felt there was an underlying fallacy in this approach.

At length the V.I.C. arrived and after a preliminary tour of our showrooms, came in to discuss his credit rating. He was a big, florid, well-fed fellow in expensive tweeds and wearing an exclusive yacht-club tie-pin. He clearly found it distasteful to have to discuss his solvency with a book-keeper. I had a feeling that we wouldn't get on.

He outlined his requirements in an off-hand fashion. He was extending his premises and opening two new branches in outlying districts; he would want about £16,000 credit to start and about £5,000 monthly deliveries thereafter; a complete reorganization was impending; he hoped to become one of our biggest customers. After this barrage he lit an impressive cigar, without offering me one, so I laid

down my pencil and inquired courteously about payments.

He regarded his manicured nails disdainfully for a moment. 'Two thousand down . . . four to five thousand monthly thereafter, on the nail . . . the extensions have mopped up my free capital, but there is no need to be alarmed.' He sounded like Napoleon talking to a nervous recruit. 'You may have heard I'm marrying one of the Dorset Clayhorns . . . very wealthy family . . . her brother is coming in with me.'

I was sorely tempted to repeat J. B. Priestley's remark that the Dorset Clayhorns sounded like cattle, but instead I talked about markets in desultory style while we sized one another up. His record was shaky and his personality was vaguely untrustworthy; a touch of the confidence trick somewhere? It's all very well for the salesmen to press for business, but my responsibility is the avoidance of bad debts arising from excessive credit allowances. I decided to trust to my intuition, and told him that we'd give him £5,000 credit maximum, provided he paid off the old balance and sent monthly instalments to justify further deliveries. Not unreasonable, I felt.

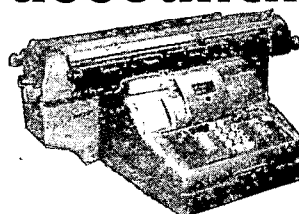
He was not so much disappointed as coldly pained. The offer was quite useless to him, of course, it was a sheer waste of time talking further. Rather disappointing to find a firm of our presumed status displaying such limited appreciation of modern business requirements. He sauntered off negligently, only pausing to pay off his account in full to the cashier.

Our sales manager was wryly amused at the recital later. He explained that our customer had got all he wanted from our keenest local competitor - and a discount concession as well; there was a most valuable order lost to us. When I demanded hotly if he'd gamble his own money on such a doubtful risk, he merely shrugged. 'If it was my own money, I'd invest it; with the firm's money, you're here to take calculated risks. Merchants must gamble to succeed, and with strange bed-fellows, too.'

It's rather a change from my basic accountancy training in precision. What will the chairman say when he learns I've lost another good customer? Will he agree that I should be less careful with his money than with my own? Anyhow, time will tell if my hunch was right or wrong.

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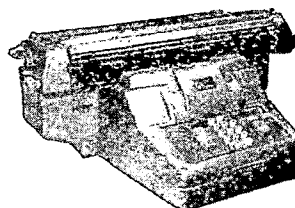
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Multum in Parvo

HOW much can be got into a balance sheet without fogging the eye with a mass of figures distantly related to their narrative? Detail has to be given—either squeezed into the balance sheet or elsewhere in schedules and notes. It is often much easier to give the detail separately; once the main position has been given, the schedules and notes can be spread out. But however great is the air of informativeness of schedules or notes, it never seems quite the same.

Just what can be done with a balance sheet without recourse to voluminous notes or schedules may be seen in this week's reprint of the 1959 accounts of The Sheffield Twist Drill & Steel Co Ltd, which makes the 'Dormer' twist drills and tools. In a space 6½ inches square, this balance sheet sets out, with detail, fixed assets, net current assets and surplus of assets over liabilities.

There are six items of fixed assets, six of current assets and seven of current liabilities and provisions involving seventy-eight amounts in seven columns, including the comparison in blue. Narrative and figures come to the eye with the greatest ease. It is, indeed, a very good example of *multum in parvo*.

An Art

Figures for fixed assets, as will be seen, are presented in three columns showing cost or valuation, accumulated depreciation, and the balance, for each of the six items. Separate ruled-off totals are given at the foot of each heading and a fourth column shows the fixed assets net figure. Additionally there is a complete comparison over three columns for the twenty-one amounts.

'Net current assets' are itemized and the total carried out, followed similarly by 'Current liabilities and provisions' with a further extension of net current assets below the fixed assets total above. Finally, these resulting figures are totalled to give the surplus of assets over liabilities.

The surplus figure is carried over to the right-hand side of the account to be resolved into capital, reserves and future tax. Three explanatory notes in a box below the total of capital and reserves complete the balance sheet.

It may be said that all this is so simple; elementary, in fact. But it is surprising how many balance sheets one sees in the course of a year—balance sheets by the hundred—that fail in this respect. In some the

figures are spaced out so far from narrative as to detach one from the other. Some cram into a column of detailed figures, ruled-off sub-totals that would be better carried out to a further column. Good balance sheet layout is quite an art.

Full Review

SIR JOHN HANBURY WILLIAMS, C.V.O., Chairman of Courtaulds Ltd, is one of a number of company chairmen who prefer to make a statement at the annual general meeting rather than include an annual survey with the published accounts. He sees to it, however, that Courtaulds' stockholders are given a very full review of their company's operations over the year in the 'Report of the Directors'. The directors' report for the year to last March, for instance, covers fifteen quarto pages.

This year the directors' report is presented in a new form. The review of the operations of the group has been divided under headings which reflect the main group activities, whether these are at home or overseas. In this way, it is stated, stockholders have a clearer picture of the way in which recent developments have grown naturally from interests of the group, which in nearly all cases have been fostered for a number of years. Courtaulds in the past year or so have branched out into pulp, packaging, paint and plastics, as well as plant engineering.

The chairman's statement at the annual general meeting on July 20th, says the report, 'will review the growth of Courtaulds Ltd and discuss recent major acquisitions in the context of the development of the group as a whole'.

Clarity

THE Rolls-Royce accounts are always a model of clarity. Stockholders can see right into the business from the extent of its sales and end-year order book, to the weight of research and development expenditure. An example of the way in which the position is explained is provided by the section on 'Stock valuation' in the directors' report. It runs as follows:

STOCK VALUATION

	1959	1958
	£39,346,858	£38,200,245

In recent years, due to changing manufacturing techniques, overhead expenditure has become a much larger factor in manufacturing costs. Your directors have therefore changed the basis of valuing partly and wholly manufactured goods in stock. The new treatment accords with the method employed in computing the profits for taxation purposes.

The profits of the group are affected by this change as follows—

	1959	1958
	£	£
Trading profit on new basis	4,876,469	4,753,482
Trading profit on old basis	4,886,496	4,606,980

The change has been made effective at 1st January 1959, with the following result—

	Group	Parent company
	£	£
Stock valuation on new basis	38,200,245	32,966,266
Stock valuation on old basis	33,321,451	28,110,273

The increase in value amounting to £4,878,794 (Parent company £4,855,993) represents the amount by which profits would have been increased in previous years if this basis had then been used and it has therefore been included in these accounts under the heading 'Profits retained in the business'.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1959

	1958	1959
FIXED ASSETS		
Freehold Property	823,439	158,179
Leasehold Property	34,955	6,433
Plant and Machinery	978,071	563,429
Fixtures, Fittings and Utensils ..	117,140	65,337
Office Furniture and Equipment	63,101	31,708
Motor Vehicles	46,508	25,433
	<u>£2,063,214</u>	<u>£850,519</u>
	£1,212,695	£1,982,550
	<u>£1,212,695</u>	<u>£743,589</u>
		<u>£1,238,961</u>
NET CURRENT ASSETS		
Current Assets		
Cash at Bank and in Hand .. ..	.. ..	415,099
Sundry Debtors and Bills Receivable (less Provisions) and Prepayments .. ..	.. ..	612,291
Stocks as Valued by the Companies' Directors	602,896	
Tax Reserve Certificates .. ..	.. ..	—
Government Security, at Cost (see Note 2) ..	150,000	
Trade Investment, at Cost (Unquoted)	500	
	<u>1,780,786</u>	<u>1,645,799</u>
		<u>1,645,799</u>
Deduct:—		
Current Liabilities and Provisions		
Current Liabilities and Provisions		
	<u>£2,476,600</u>	<u>£2,321,997</u>
		<u>£2,321,997</u>

- 1 Fixed Assets included at valuations made in 1953-4 amount to £116,619.
- 2 The Market Value of the Government Security at 31st December, 1959, was £127,898.
- 3 Commitments for Capital Expenditure at 31st December, 1959, amounted to approximately £120,000.

THE SHEFFIELD TWIST DRILL AND STEEL COMPANY LIMITED
AND ITS SUBSIDIARY COMPANIES

July 9th, 1960

THE
ACCOUNTANT

53

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1959

	1958	1959	1958	1959
	£	£	£	£
GROUP TRADING PROFIT				
after charging all expenses of manufacture and administration including the following amounts				
Provision for Depreciation and Amounts Written Off in respect of Freehold and Leasehold Buildings, Plant, Machinery, Motor Vehicles, Furniture, Fixtures and Fittings	111,156	123,365		
Audit Fees and Expenses	1,189	1,036		
Emoluments of the Directors of The Sheffield Twist Drill and Steel Company Limited:—				
Fees	2,000	2,000		
Remuneration for Management and Pension Scheme Contributions	28,730	27,043		
	30,730	29,043		
	£143,075	£153,444		
DIVIDEND AND INTEREST RECEIVED				
Trade Investment	24	24		
Tax Reserve Certificates	10,500	4,480		
Government Security	3,762	3,762		
Bank Deposits	2,885	4,934		
Sundry	445	497		
	17,616	13,697		
TRANSFER FEES	61	69		
GROUP NET PROFIT BEFORE TAXATION	£517,078	£437,079		
PROVISION FOR TAXATION				
Based on the Profits of the Year				
Profits Tax	55,000	57,000		
Income Tax	226,428	178,593		
Less: Taxation Provisions of previous years no longer required	281,428	235,593		
	5,195	4,850		
GROUP NET PROFIT AFTER TAXATION	276,233	230,743		
SURPLUS BROUGHT FORWARD FROM LAST YEAR	240,845	206,336		
APPROPRIATIONS				
Expenses of Increase of Share Capital and Bonus Issue	—	4,721		
Transfer to General Reserve	100,000	100,000		
Dividends paid and proposed for the year ended 31st December, 1959 (net):				
5% Cumulative Preference Shares	6,891	6,469		
Half year to 30th June, 1959 (paid)	6,890	6,469		
Half year to 31st December, 1959 (since paid)	—	12,938		
Ordinary Stock (units of 4/- each)	13,781	—		
Interim of 3d. (gross) per unit, paid 6th January, 1960	40,195	37,734		
Proposed final of 6d. (gross) per unit	80,391	80,391		
	120,586	118,125		
SURPLUS TO BE CARRIED FORWARD	234,367	235,784		
The Sheffield Twist Drill and Steel Company Limited	70,518	61,116		
Subsidiary Companies	22,513	25,437		
	£93,031	£86,553		

CITY NOTES

TO judge from the behaviour of the stock-markets the investment view is that the new credit squeeze is neither needed nor harmful. Certainly it is difficult to reconcile Treasury statistics with the information that the Treasury presumably gave the Chancellor in advising him to raise Bank rate and put an extra squeeze on the banks.

The £46 million first quarter balance of payments surplus and the £12 million increase in gold and currency reserves during June hardly point to any economic crisis. Hire-purchase figures have shown that the initial curbs on credit were already working during May and were probably working to fuller effect in June before the new two-pronged credit attack.

Through all this, the stock-market has remained defiantly firm. Any set-back in equity prices has only served to bring in new support. Share prices have refused to succumb to any mood of depression.

Regarding the new moves as a 'stitch in time', the stock-markets have been, and still are, prepared to look beyond any temporary slowing down of the pace of industrial development. Long-term prospects are still sound and the latest decision of Dorman Long to launch a new development plan costing close on £7 million is indication enough of the forward look now being taken in industry.

The mood of the market is undoubtedly confident and even institutional investors have been back to the equity sections as buyers recently. Institutional portfolios include an increasing proportion of equity holdings and the power of such investment is still an important market influence.

RATES AND PRICES

Closing prices, Wednesday, July 6th, 1960

Tax Reserve Certificates: interest rate (29.6.60) 3½%

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

April 29	£4 13s 0.48d%	June 3	£4 11s 1.39d%
May 6	£4 13s 4.70d%	June 10	£4 12s 1.79d%
May 13	£4 11s 1.56d%	June 17	£4 13s 7.34d%
May 20	£4 11s 1.69d%	June 24	£4 13s 7.40d%
May 27	£4 11s 1.53d%	July 1	£4 13s 6.14d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	5-5½%	2 months	5½-5¾%
<i>Fine Trade Bills</i>		3 months	5½-5¾%
3 months	6½-7%	4 months	5½-5¾%
4 months	6½-7%	6 months	5½-5¾%
6 months	6½-7½%		

Foreign Exchanges

New York	2.80½-½	Frankfurt	11.71½-½
Montreal	2.75½-½	Milan	1.743-½
Amsterdam	10.60-½	Oslo	20.02½-½
Brussels	139.94½-95½	Paris	13.76½-½
Copenhagen	19.34-½	Zürich	12.12½-13½

Gilt-edged

Consols 2½%	44½	Funding 4% 60-90	87½
Consols 4%	67½xd	Savings 2½% 64-67	82½
War Loan 3½%	60½	Savings 3% 55-65	89½
Conversion 3½%	60½	Savings 3% 60-70	79½
Conversion 3½% 1969	84½	Savings 3% 65-75	72
Exchequer 5½% 1966 100½		Treasury 2½%	44½
Funding 3% 66-68	81½	Treasury 3½% 77-80	72
Funding 3% 59-69	81½	Treasury 3½% 79-81	72½
Funding 3½% 99-04	64½	Victory 4%	92½

=£80 17s 6d per annum, being an EPB of £1 18s 6d per year or 8.854 pence per week.

Yours faithfully,
INTERESTED.

[Mr William Phillips writes: There is nothing wrong with the arithmetic of 'Interested' except that he has done his calculations in an order which differs from that followed by the Registrar of Non-Participating Employments. He will doubtless appreciate that where every figure except the £2 1s 6d and the £1 18s 6d are approximate, if one proceeds to do successive multiplication and division, abbreviating to approximations at each stage, figures result which are different from those which result if the division is done first and the multiplication thereafter. In fact, the Registrar adopted the latter method, arriving at 10.51d per week for men and 8.84d per week for women, and from these rough approximations reached £2 6s 2d and £1 18s 6d a year respectively. (See paragraph 2 of Memorandum NPE1 - reproduced in *The Accountant* of March 12th, 1960.) 'Interested' has accepted that there are on the average 52.18 weeks in a year; the correct figure (up to A.D. 2100, which will not be a leap year, unlike A.D. 2000, which will) is, of course, 52.17857142.]

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Arithmetic of Contracting Out

SIR, - I hesitate to disagree with an authority such as Mr Wm. Phillips ('The Arithmetic of Contracting Out' in your issue of June 18th, 1960), but surely the product of a maximum graduated pension of £2 1s 6d per week (male) and the period of 52.18 weeks is a pension of £108 5s 6d per annum, which would equate to an EPB of £2 6s 0.88d per year contracted out, i.e. 10.595 pence per week.

Similar figures for the female are £1 11s 0d × 52.18

Memorandum on Company Law

SIR, - I was astonished to learn from the Institute's memorandum on company law that the Registration of Business Names Act, 1916, provides a means for those who have dealings with a partnership to know with whom they are dealing.

The 1916 Act, does not apply to all partnerships, only to those requiring registration under the Act. In the case of partnerships which have to be registered, nominees may be registered in place of the actual partners.

I suggest the repeal of the obsolete 1916 Act, and the twenty limit in the Companies Act, and substitute registration of large partnerships.

Yours faithfully,

Canvey Island, Essex. L. G. CARRICK, F.C.A.

Radio Retailers' Accounts

SIR, - Having recently examined the trading and profit and loss accounts and balance sheets of a number of radio and television retailers, I am rather appalled at the poor, and in some instances incorrect and misleading, presentation of the figures therein, even in the case of limited companies where accounts have been prepared by qualified professional accountants. Two aspects in particular seem to require much more care and attention to basic accounting principles and legal requirements - namely, the treatment of 'sale or return' stock, and of sets out on rental.

In order to relieve retailers of the burden of financing purchase tax on stocks, it is common practice for manufacturers to operate 'sale or return' or 'consignment' schemes whereby the purchase tax does not become payable by the retailer until the goods are appropriated by him, or until a specified date when the scheme ends and the property in the goods passes automatically to the retailer. In general, the full trade price of the goods is charged to the retailer as a 'deposit' and is payable in the normal way, the debt arising at the date of dispatch from the factory.

In drawing up the final accounts, the goods held on sale or return terms should, of course, be excluded from stock and purchases. The 'deposits', however, will have been credited to the suppliers' personal accounts, so a *contra* entry is required in the balance sheet under sundry debtors, as a separate item. The contingent liability for purchase tax on S.O.R. goods not yet appropriated should be stated as a note to the balance sheet. It is, in my view, important that the accounts should reveal the amount of stock held on S.O.R. terms, including the contingent liability for purchase tax, as a creditor or potential purchaser may otherwise be misled, for example, in attempting to calculate the rate of stock-turn.

Regarding rental, I have seen some balance sheets and accounts which completely conceal the fact that rental trading is being carried out. Where the sets are sold to a finance company and the customer

signs an agreement with the finance company, the retailer acts as a collecting agent for the weekly or monthly instalments, and out of this he receives a commission and an allowance for maintenance. The contingent liability on future instalments to the finance company should be noted on the balance sheet, and the amount received from the finance company in payment of the full retail price of the set should be credited to sales, the income from rental instalments being credited to a separate account.

Where the retailer makes his own rental arrangements, the sets out on hire are clearly no longer stock-in-trade but fixed assets, to be shown in the balance sheet at cost less aggregate depreciation. In several instances, I have seen sets out on rental included with stock-in-trade 'at director's valuation', with no indication of the amount, if any, provided for depreciation. In another instance, advances received from finance companies on rental agreements discounted were entered as sales, and the sets excluded altogether from stock although still legally owned by the retailer. In every case, the accounts were certified by professional auditors as complying with the requirements of the Companies Act.

It seems clear that many retailers in the radio and television trade are launching out into rental schemes without proper advice from their accountants, and often with inadequate capital. Surely both they and their creditors, who may be asked to provide extended credit on the strength of their balance sheet and trading accounts, have the right to expect that the audited accounts do, in fact, provide the 'true and fair view' that the auditor's certificate implies? I hope that any of your readers who prepare or audit such accounts will give due consideration to these matters before releasing final certified accounts to their clients.

Yours faithfully,

M. J. C. ANNAND, B.A., A.A.C.C.A.

Welwyn Garden City.

Professional Qualifications

SIR, - The accountancy and secretarial professions are now fully catered for by the following recognized bodies: the three Institutes of Chartered Accountants; The Chartered Institute of Secretaries; The Association of Certified and Corporate Accountants; The Institute of Cost and Works Accounts; The Institute of Municipal Treasurers and Accountants; The Corporation of Secretaries.

There are, however, other bodies who by various means, endeavour to attract registered students although the qualifications they offer are of little value.

I wish to give publicity to the fact that some young people, due to lack of guidance, do unwittingly waste time and money obtaining unrecognized qualifications.

Correspondence colleges must bear some responsibility for correct guidance of prospective students, and where they encourage the taking of examinations other than those mentioned, they are doing a

positive disservice to the students concerned.

Nothing can be more galling than to spend £40 upwards on tuition and examination fees, as well as many hours of studying, to find the qualification obtained carries very little weight.

A perusal of the handbooks issued by most of these organizations, gives a disproportionate picture of their importance and usually implies that the body concerned forms a recognized part of the accountancy or secretarial professions, which they do not.

It is important that all persons who give career advice, and in particular correspondence colleges, should realize their responsibilities to prospective

students, or employees, and in all cases only recommend the obtaining of a recognized qualification.

Yours faithfully,
Sutton Coldfield. G. T. EVANS, A.C.I.S.

Registration of the Profession

SIR, - I often hear that there are practical difficulties preventing the registration of the accountancy profession.

Perhaps a kind reader would be good enough to tabulate these practical difficulties, indicating those that confronted the Law Society when it faced the problem of registration. Yours faithfully,

London, SW2. R. MITCHELL.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES ANNUAL CHURCH SERVICE

The President and members of the Council were joined by a goodly number of other members of the Institute for the annual service in the Church of St Margaret, Lothbury, London, EC2, last Wednesday.

The Rector, the Rev. A. John Drewett, M.A., B.Sc., conducted the service which commenced with the hymn, 'Immortal, invisible, God only wise'. The lesson, from Ephesians, chapter 6, was read by Mr S. John Pears, F.C.A., the President. During the singing of the hymn, 'O Worship the King', a collection was taken for 'The Chartered Accountants' Benevolent Association, and amounted to £49 2s.

The Rector delivered the address.

The Address

So then, as we have opportunity, let us do good to all men, and especially to those who are of the household of faith. (Galatians vi. 10.)

When asked the nature of Christianity, most people will reply that it consists of doing good to others. But doing good is not as easy as it sounds. In fact, it is full of snags and some of these I would like us to consider before we proceed to a more positive understanding of the text. It is, unfortunately, only too easy to do good for the wrong reasons and from the wrong motives. So common is this in our day that a new kind of creature, known contemptuously as a 'do-gooder', has appeared on the scene. The 'do-gooder' is one who knows so clearly what is good for others that he does not trouble to get their agreement but forces his reforming zeal upon them. This attitude is not confined to social engineers of the Welfare State, but is now met with on a world-wide scale. It is almost true to say that west and east are now competing to do good to what are known as the under-privileged peoples of the world, without stopping to ask whether we can do good to them in the way in which *we* think is best for them, without doing them, at the same time, considerable spiritual harm.

Doing Good: the Wrong Way -

Doing good in the wrong sense springs from three main roots. The first is the spirit of patronage which,

while it does something to alleviate the lot of others, despises them for being in a position where they need help at all. This is the attitude which causes hatred to spring up in the hearts of the recipients and causes them to bite the hand that feeds them. The second is the spirit of self-justification which makes us do good to others, not for their sakes but for our own. Some people find immense satisfaction in doing good to others because it places them in their debt and because they enjoy the social approbation and rewards which philanthropy often brings. But perhaps the greatest danger of all is that we should do good to others because it ministers to our sense of power over them. This surely is one of the main characteristics of the totalitarian governments. They are so sure that they know what is best for others that they force them, at any cost, to accept their solutions to their problems.

This is not the kind of good which the Christian is bidden to do. When St Paul talks of doing good to all men, he has in mind the outworking of that disposition which the *New Testament* calls love. Love is an attitude to others which springs from our knowledge of God and of the way in which he has dealt with us. The life of Jesus as portrayed in the Gospels is the exact opposite of the 'do-good' mentality which I have described. That Jesus knew what was for men's good is not in doubt. But he never forced men to accept his solution of their problems or their needs. In every dealing with other people he always respected their own personalities and allowed them the freedom to accept or reject. In the last resort, their rejection took the form of crucifixion and death. The suffering of Christ is the price that perfect love has to pay for refusing to override the wills and personalities of others. In the unforgettable words of St Paul: 'Love is patient and kind, love is not jealous or boastful; it is not arrogant or rude. Love does not insist on its own way.'

- the Christian Way

The Christian way of doing good demands therefore a great deal more patience and respect for others than the 'do-gooder' is prepared to grant. And from this

arises, of course, many of the perplexities of the western world; we are likely to fall behind unless we can demonstrate to the under-privileged that our concern is that they shall attain their goal of a higher standard of living without, in the process, losing their freedom and status as persons. If we really believe, as Christians, that man cannot live by bread alone, we should make plain what this means in our political and economic systems.

We can only do this on the large canvass of national and international affairs if we have learnt what it means to do good to others in the smaller communities of home, office, club and Church to which we belong. When St Paul tells us to do good 'especially to those who are of the household of faith', he is pointing us to the obvious fact that we cannot learn the discipline of really caring for the good of all men, unless we have first learnt this attitude in the close and intimate day-to-day relationships with those with whom we live and work. If we have discovered how to treat those as persons who, together with us, are seeking the meaning of the good life, we are likely to grow to have a desire for the good of all men and so help to achieve their well-being in every way open to us.

A Costly Business

We shall soon realize, however, that this is a costly business. We shall have to tolerate a certain measure of inefficiency and untidiness because other people do not always fit neatly into our schemes. We shall have to recognize that they are not pawns to be moved

about on our particular chess board. We shall come to see that 'life is more than meat and the body than raiment'. In short, we shall have to acknowledge the fact that the good which we can do to others is not only, or even primarily, of a material nature. This is the danger of our so-called affluent society. Education, for example, is a part of the good life which must be given a very high priority. The life of the arts, too, must not be starved for the sake of more washing machines, drip-dryers or motor-cars, although all these things have a place in life.

Perhaps the supreme good which we can do for others, is to help them to discover for themselves the secret of the good life. Because we are all different, with different needs, abilities and hopes, there is no short formula for the more abundant life. But there are occasions when the sympathy and help of others, given in the right spirit, will help us on our road. St Paul in this same letter to the Galatians talks of bearing one another's burdens and this is a clear indication of the mutual help and comfort which we must give one another, not only in the intimate relationships of family life, but whenever opportunity arises. But the Apostle also says, just before, that we must bear our own burdens. No one has the right to help others to the extent that they no longer have any responsibilities or burdens of their own. A man must stand on his own feet if he is to respect himself and be respected by others. Perhaps, after all, the greatest good which we can do to others is to help them to be themselves and this will demand of us a measure of real sacrifice because it will be the product of genuine love.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

MEETING OF THE COUNCIL

A meeting of the Council of The Institute of Chartered Accountants in Ireland was held in Belfast on Thursday, June 23rd.

Attendance

The *President*, Mr G. E. Cameron, was in the chair and there were also present Messrs A. E. Dawson, *Vice-President*, John Bacon, A. S. Boyd, G. A. P. Bryan, Frank Cleland, J. F. Dempsey, James Graham, N. V. Hogan, John Love, R. E. McClure, R. J. Neely, R. P. F. Olden and H. W. Robinson with the *Secretary* and the *Joint Secretary and Treasurer* in attendance.

Apologies for absence were submitted from Messrs H. E. A. Addy, M. M. Connor, G. F. Klingner and James Walker.

Deaths

The deaths of the following members were reported and noted with regret:

Mr Godfrey Minorgan Bowers, Associate, Dublin.
Mr John Harold Johnston, Fellow, Paris.
Mr John Archibald McFadden, Associate, Sligo.

Fellowship

Mr James Ross, A.C.A., Belfast, was elected a Fellow of the Institute.

Associateship in Practice

The following members were admitted to practice:

Mr David William O'Neill O'Grady, Dublin.
Mr James Desmond Traynor, Dublin.

Membership

Mr Raymond Joseph Patrick Riall, Dublin, was admitted to membership. One application for reinstatement to membership was deferred.

Institute Examinations - May 1960

The reports of the examiners on the examinations held in May 1960 were submitted showing that in the Final examination 53 per cent of the candidates had been successful compared with 41 per cent at the previous examination; and that in the Intermediate examination 41 per cent had passed compared with 50 per cent in November 1959. In the Preliminary examination eight candidates out of 24 were successful.

The results of the examinations are published elsewhere in this issue.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS CASSLETON ELLIOTT & Co, Sierra Leone, announce that Mr DAVID JOHN BRENDON HERRERA, A.C.A., who has been the manager of their office in Freetown for some time, has been admitted to partnership.

MESSRS BABER, OWEN & Co, Chartered Accountants, of 18 Baldwin Street, Bristol, 1, announce that on July 1st, 1960, they have incorporated the practice of Messrs EVANS & Co, Chartered Accountants, and have admitted as a partner Mr E. F. EVANS, A.C.A. The name of the firm will continue unaltered as BABER, OWEN & Co and the practice will continue at the same address.

MESSRS LEWIS, BLOOM & Co, Chartered Accountants, of 13 Harley Street, London, W1, announce that as from June 30th, 1960, they have admitted into partnership Mr J. SEYMOUR, A.C.A. The name of the firm will remain unchanged.

MESSRS J. H. CHAMPNESS, CORDEROY, BEESLY & Co, Chartered Accountants, of London, announce that Mr ROBERT MACAFEE McCLEERY, M.A., A.C.A., who has been a member of their staff for some years, has been admitted into partnership as from July 1st, 1960.

MESSRS L. K. WOOTTON, F.C.A., A.T.I.L., J. PATTINSON, F.C.A., and G. E. NICHOLLS, F.C.A., announce that Mr IAIN H. HANDLEY, A.C.A., has joined them in a partnership which will practise at 26A High Street, Andover, under the style of WOOTTON, PATTINSON, NICHOLLS & HANDLEY.

Appointments

Sir Harold Gillett, Bt., M.C., F.C.A., has been appointed chairman of the reconstituted board of Arusha Industries Ltd. Mr L. S. Carstairs, previously chairman, has become president of the company.

Mr D. D. Mathieson, F.C.A., has been appointed a director and Mr P. Edge-Partington, F.C.A., an alternate director of K.G. (Holdings) Ltd.

Mr D. Bussell, M.B.E., F.C.A., has been elected an additional director of Lynton Holdings Ltd.

Mr J. Pitchers, F.C.A., has been appointed a director of Paquin Ltd.

Mr M. T. W. Easby, F.C.A., has been appointed chairman of Rhodesia-Katanga Co Ltd.

Mr J. A. Horsfield, F.C.A., chief accountant of John Mackintosh & Sons Ltd, has been appointed a director of the company.

Mr J. L. Dickinson, F.C.A., a special director of The Skefco Ball Bearing Co Ltd, has been elected to the board of directors.

Mr Christopher B. Barber, F.C.A., has been appointed secretary of W. & R. Jacob & Co (Liverpool) Ltd and a director of Associated Biscuit Manufacturers Ltd.

Mr R. Varley, F.C.A., has been appointed a director of Card Clothing & Belting Ltd.

Mr C. Dixon, F.C.A., has been appointed a local director of H.P. Sauce Ltd.

Mr R. E. Terry, F.C.A., has been appointed secretary of Allied Industrial Services Ltd.

Mr A. G. Ellins, F.C.A., has been appointed secretary of Willoughby's Consolidated Co Ltd.

Mr F. W. Harper, F.C.A., has been elected chairman of United Serdang (Sumatra) Rubber Plantations Ltd.

Mr J. W. Hough, O.B.E., F.S.A.A., F.I.M.T.A., has been appointed a Commissioner under the Public Works Loan Act, 1946.

Mr John Fleming, M.B.E., M.COM., F.C.C.S., A.A.C.C.A., A.R.A.N.Z., has been appointed assistant secretary of The Corporation of Secretaries.

OBITUARY

Mr Hewson Graham King, F.C.A.

It is with regret that we record the death of Mr Hewson Graham King, F.C.A., on June 28th at the age of 85. Mr Graham King was admitted an Associate of the Institute in 1898 and commenced to practise in 1902. He later became senior partner in H. Graham King & Co, Chartered Accountants, of London, until his retirement from the firm in 1954.

He had long-standing connections with the pianoforte manufacturing industry and was secretary of The Association of Manufacturers of and Dealers in Pianoforte Supplies Ltd for nearly forty years.

He had been a liveryman of the Worshipful Company of Wheelwrights since 1913 and was Master of The Worcester Park and Buckland Beagles from 1922-30.

IN PARLIAMENT

Salaries, Wages and Dividends

Sir W. ROBSON BROWN asked the Chancellor of the Exchequer what was the total amount of salaries and wages paid annually; what was the total amount of dividends paid by all companies; and what percentage this amount is of the total wages and salaries paid, for the years 1954 to 1959, in each case.

Mr BARBER: The figures are:

	Total wages and salaries	Dividends paid on ordinary and preference shares ¹	Dividends as a percentage of wages and salaries
	£ million	£ million	
1954 ..	9,290	631	6.8
1955 ..	10,185	709	7.0
1956 ..	11,090	739	6.7
1957 ..	11,730	771	6.6
1958 ..	12,070	800	6.6
1959 ..	12,490	883	7.1

(¹) Dividends paid to persons, public corporations, central and local government, life assurance and pension funds and abroad.

Hansard, June 24th, 1960. Written Answers. Col. 71.

Trustees: Revised Certificates

Mr POWELL asked the Chancellor of the Exchequer whether the Commissioners of Inland Revenue will now simplify and expedite the procedure for revising certificates issued to trustees of settlements under

Sections 44 (3) of the Finance Act, 1950, and 28 (7) of the Finance Act, 1958.

Sir E. BOYLE: As I promised during the Committee stage of the Finance Bill, my right hon. friend has been considering the procedure which is to be adopted for issuing revised certificates to trustees where the potential liability to estate duty is reduced by the operation of clause 61 of the Finance Bill. All the trustees will have to do will be to fill up a simple form at the end of the appropriate period saying whether the life-tenant has remained excluded from possession and enjoyment or other benefit and whether to the best of their knowledge any operations are in view by which he may secure a benefit. If they can give assurances on these points a revised certificate will be sent to them forthwith.

Hansard, June 29th, 1960. Written Answers, col. 135.

DOUBLE TAXATION CONVENTION

United Kingdom and Italy

A double taxation convention between the United Kingdom and Italy was signed in London last Monday. The convention, which is subject to ratification, provides for the avoidance of double taxation of income and profits, and is expressed to take effect in the United Kingdom as from April 6th, 1956.

The convention is in general similar to those which the United Kingdom has already made with a number of other European countries.

CONTRACTING OUT

Preserving Equivalent Pension Rights

Detailed rules for preserving the pension rights of employees contracted out of the graduated part of the National Insurance retirement pensions scheme who leave their contracted-out jobs, were published by the Ministry of Pensions and National Insurance last Monday.¹

Employees who belong to sound occupational pension schemes can, on certain conditions, be contracted out of the graduated part of the new pension scheme, starting in April 1961, if their occupational scheme provides them with pension rights equivalent to the maximum under the graduated part of the National Insurance scheme. These equivalent pension rights must be preserved if the employment ends.

Methods of preserving rights

The contracting-out employer may discharge his liability to preserve his employee's rights up to the required standard by giving a right to a pension payable on retirement at or after age 65 (60 for women); or by effecting a 'transfer' from one contracted-out scheme to another; or by purchasing maximum rights under the National Insurance scheme for the period of contracted-out service by a 'payment in lieu'. This method is compulsory if neither of the other two methods has been adopted within the time limits set by the regulations.

Employers are required by the regulations to inform the

¹*National Insurance (Non-participation - Assurance of Equivalent Pensions Benefits) Regulations, 1960*. S.I. 1960, No. 1103. H.M.S.O. Price 9d.

Ministry of all terminations of contracted-out employment, and to show that the pension rights have been preserved, within six months of the termination happening. They also lay down as a condition for the acceptance of preservation otherwise than by a 'payment in lieu' that the responsible paying authority has given a certificate showing that the appropriate amount of pension has been preserved; and that the employer has given this certificate to the insured person. Where the pension is in the form of a 'frozen' or actual pension, the certificate must be given by the body authorizing the payment of benefits. Where the pension rights are transferred, the certificate must be given by the authority, trustees, or insurance company responsible for the contracted-out scheme to which they have been transferred, and must show that an appropriate credit in that scheme has been given to the employee.

Gaps in contracted-out service

In many cases when a pension comes to be preserved there will be gaps in the record of contributions paid (e.g. on account of sickness) which were not treated as breaking the continuity of contracted-out service at the time they occurred. Gaps amounting altogether to three weeks or less in any contribution year count for preservation purposes as if they had been weeks of employment. For gaps exceeding three weeks in any contribution year, preservation for the excess is not compulsory, though the regulations place no obstacle in the way of a higher standard of preservation.

The regulations also provide for limited delay in the refund of contributions by contracted-out schemes in respect of 'payments in lieu', and for avoiding duplicate preservation of rights for periods when a person is simultaneously in two or more contracted-out employments.

Advisory Committee's Report

In a report² on the regulations previously submitted to them in draft, the National Insurance Advisory Committee stated that new legislation may eventually be necessary to afford 'some measure of protection' for those contracted out of the new graduated pension scheme, owing to the fact that sooner or later the situation will arise in which a number of people will hold assurance certificates issued by schemes which are no longer contracted out.

Recommendations made by the Committee on the draft regulations were all adopted by the Ministry.

YOUR PENSIONS AND YOU

The State graduated pensions scheme is the subject of a booklet published last Monday and written by Arthur Seldon. It is a simple guide designed to introduce the subject to industrial, shop and clerical employees.

Your Pensions and You was originally published in the 'Take Home Books' series, nearly one million copies of which are distributed annually by management to factory and office workers throughout the United Kingdom.

Copies of the booklet can be obtained from the publishers, Newman Neame Take Home Books Ltd, 7 Fitzroy Street, London, W1, price 1s post free.

THE LAW SOCIETY'S NEW PRESIDENT

At the annual meeting of The Law Society held in London on July 1st, Mr Denys Theodore Hicks, of Bristol, was elected President for 1960-61. Mr Hicks, who is aged 52, was born in Bristol and was admitted as a solicitor there in 1931.

²House of Commons Paper No. 236. H.M.S.O. Price 1s.

CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The summer meeting of the Chartered Accountants' Golfing Society was held at Ashridge Golf Club on Friday, June 17th. The leading scores were as follows:

Stableford Medal

P. H. Blandy (22)	21+19 2/8ths=40 2/8ths	(wins First Prize and Lord Mayor's Cup)
P. Lynn (16)	24+14=38	(wins Second Prize)
F. C. Arnold (8)	30+7=37	
D. W. Gibson (6)	31+5 2/8ths=36 2/8ths	
J. C. Powell (17)	21+14 7/8ths=35 7/8ths	
P. Wand (9)	28+7 7/8ths=35 7/8ths	
S. P. Bouverie (16)	21+14=35	

The Scratch Prize was won by P. Hughes (1) with a gross score of 32 points.

Foursomes

J. M. Kaye (3) and J. B. Pittman (13)	37 points	(wins First Prize)
J. W. Llewellyn-Jones (17) and W. K. Wells (13) ..	35 "	(wins Second Prize on best last 6 holes)
S. C. Hare (16) and P. Lynn (16)	35 "	
A. W. Coleman (11) and D. L. Thomas (13) ..	34 "	
R. A. Daniel (10) and D. W. Gibson (6)	32 "	
J. H. Bradfield (11) and P. Knight (6)	30 "	

ASSOCIATION OF SCOTTISH CHARTERED ACCOUNTANTS IN LONDON

The results of the annual meeting of the Association of Scottish Chartered Accountants in London Golf Club held at West Hill Golf Club on June 16th are as follows:

Past Presidents Challenge Cup

Winner: P. Markham 80-13=67

Runner-up: D. A. Sloan 83-15=68

Best Nine Holes Home

R. J. Jamieson 37-2½=34½

J. Ivan Spens Challenge Cup

Winner: D. A. Sloan 83-15=68

Runner-up: A. Watson 94-20=74

The prize for the best gross score was won by Mr D. A. B. Cunningham with a round of 78.

Bogey Challenge Cup

The result was a tie at two down between:

R. J. Jamieson (Winner with best score over last 6 holes)

H. C. Maclellan (Runner-up with second best score over last 6 holes)

R. M. Hogg

P. Markham

BRITISH INSTITUTE OF MANAGEMENT

'A practical guide for management decisions' will be the theme of a one-day conference organized by the British Institute of Management, to be held at the Connaught Rooms, London, WC2, on July 20th. The conference, which will be opened by Mr Basil Smallpeice, B.COM., F.C.A., managing director of B.O.A.C., is designed for executives who do not have specialist departments and have some doubt as to the practical use that can be made of them when formulating day-to-day management decisions.

'Financial planning', 'Data processing and computers', 'Operational research', and 'Market research' are the subjects that will be dealt with by Mr P. H. Shirley, chairman of Batchelors Foods Ltd, Mr A. W.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 11TH, 1885

Reviews

PROFESSIONAL PUBLICATIONS

Library Catalogue of the Institute of Chartered Accountants, (1885.)

The issue of the new edition of this Catalogue will meet a want which no doubt has greatly increased since the system of examinations has been thoroughly established. For the profession generally, this work will be of great value as, in some particulars, the Institute Library is one of the best, if not actually the best, in the Kingdom. The collection of works on book-keeping, for example, is probably unequalled for its range and value, the number of works being exactly 100, dating from 1776 to the present time. The collection of the accounts of public companies is also very large. It is needless to say that several copies of all the text books recommended by the Council in connection with the examinations are in the library for the use of students.

Howitt, M.A., F.C.A., and Mr David Pickard, managing director of Produce Studies Ltd. The chairman of the conference, Mr R. F. Hunt, A.F.R.A.E.S, deputy chairman of the Dowty Group Ltd, will discuss the role of the managing director as the co-ordinator of the work of the various specialized departments who makes the maximum use of their information.

INVESTMENT CLUB CONVENTION

The first international convention of investment clubs was held in London from Wednesday to Friday of this week.

Representatives of the investment club movement and other investment bodies attended from the United Kingdom, America, Canada, New Zealand, Japan, Holland, Israel and other countries who claim in all some 6,000 affiliated clubs. Mr George Nicholson, who founded the N.A.I.C. in America in 1951, delivered an address on the theme of the convention - 'The founding of a world federation of investment clubs'. At the final session of the convention, details of the founding of a world federation were presented and the first trust constitution signed.

Since its formation, the United Kingdom movement has had a popular following, between 450 and 500 clubs being affiliated to the two British associations: the National Association of Investment Clubs in London and the Association of Investment Clubs Ltd based on Liverpool. These two associations, it is reported, are discussing the question of merging.

ECONOMIC CONDITIONS IN GREECE AND NORWAY

Two further booklets in the 1960 series dealing with economic conditions in member and associated countries of the Organization for European Economic Co-operation contain a comprehensive analysis of economic conditions in Greece and Norway. The booklets are available from H.M.S.O., price 2s 6d each.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Results of Examinations held in May 1960

FINAL EXAMINATION

(Second Division)

As a result of the examination held on May 16th, 17th, 18th, 19th and 20th, 1960, the undermentioned 157 candidates passed the Second Division of the Institute's Final examination. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned, an asterisk indicating a candidate who qualified for the Institute's Final examination certificate.

Ahmed, Sheikh R. U. (McKerrell Brown & Gray), Edinburgh.
Aitchison, A. I. (W. R. McDonald & Gordon), Edinburgh.
*Allan, J. H. (Howden & Molleson), Edinburgh.
*Allan, R. D. (Wylie & Bisset), Glasgow.
*Anderson, J. E. C. (Chiene & Taft), Edinburgh.
*Arthur, C. K. (McCosh, McLachlan & Co), Glasgow.

*Ballard, A. J. (Peat, Marwick, Mitchell & Co), London.
*Barr, A. M. (Peat, Marwick, Mitchell & Co), Glasgow.
Barr, W. R. G. (S. Easton Simmers & Co), Glasgow.
*Barron, I. A. (Alexander Sloan & Co), Glasgow.
Baxendine, J. F. S. (Andrew J. Dobbie & Co), Edinburgh.
*Bayfield, E. E. (McClelland, Moores & Co), London.
Binns, P. J. (Richard Brown & Co), Edinburgh.
Bowes, J. C. (Nairn, Bowes & Craig), Glasgow.
Boyd, R. A. (Richard Brown & Co), Edinburgh.
Brown, W. G. (Rattray Brothers, Alexander & France), Glasgow.
*Browning, N. R. (Reid & Mair), Glasgow.
Brownrigg, J. T. P. (McClelland, Moores & Co), Glasgow.
*Button, D. M. (Taylor & Gilmour), Glasgow.

*Cairnie, T. R. (Mackay, Irons & Co), Dundee.
*Calderwood, J. C. (Turner & Houston), Glasgow.
Caven, R. (Norman McIntyre & Co), Glasgow.
Christie, A. D. G. (Howden & Molleson), Edinburgh.
*Clarke, P. D. (Peat, Marwick, Mitchell & Co), London.
*Clibbens, P. M. (Smedley, Rule & Co), London.
Conway, J. R. (Girdwood, Allison & Logan), Glasgow.
*Copestick, H. (Mackay, Irons & Co), Dundee.
*Corrie, G. M. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
Coughtrie, S. (McClelland, Moores & Co), Glasgow.
Cowan, J. (William D. Anderson & Co), Edinburgh.
Craig, (Miss) J. S. (Kidston, Goff & Harvey), Glasgow.
*Cruickshank, (Miss) J. M. (Brown, Fleming & Murray), Glasgow.
*Curry, B. J. (Russ, Ferguson & MacLennan), Glasgow.

Daly, R. H. (Davidson, Downie & McGown), Glasgow.
*Dean, R. P. (Peat, Marwick, Mitchell & Co), London.
Deans, (Miss) E. D. (Fleming & Black), Glasgow.
Denness, W. L. (Thomson McLintock & Co), Glasgow.
Dick, J. A. (Martin Currie & Scott), Edinburgh.
*Dobbie, A. D. M. (Graham, Smart & Annan), Edinburgh.
*Doig, D. (Romanes & Munro), Edinburgh.
*Donnan, J. Y. (Hardie, Cuthbertson & Co), Glasgow.
Duffy, J. (A. G. McBain & Co), Glasgow.

*Edwards, P. R. (McClelland, Moores & Co), London.

*Fenwick, W. H. F. (Kerr, MacLeod & Macfarlan), Glasgow.
*Findlay, R. McD. (Peacock & Henry), Glasgow.

Finnie, J. (John H. Fraser & Crawford), Greenock.
Fletcher, W. G. (Moody Stuart & Robertson), Dundee.
Frew, (Miss) M. K. (McClelland, Moores & Co), Glasgow.
Frew, W. H. (Mackie & Clark), Glasgow.

Garden, K. J. (T. C. Garden & Co), Edinburgh.
Gardiner, I. G. (Clunie & Scott), Edinburgh.
Gardiner, W. G. (Nelson, Gilmour Scott, & Co), Glasgow.
Gerrie, G. N. (Miller, McIntyre & Gellatly), Dundee.
*Gibb, B. D. (Wallace & Somerville), Edinburgh.
Gibbons, I. R. (McClelland, Moores & Co), Glasgow.
Gibson, D. M. (McLay, McAlister & McGibbon), Glasgow.
*Godfrey, R. M. (A. G. Murray & Co), Edinburgh.
*Gordon, R. E. (Thomson McLintock & Co), London.
Gormly, A. G. (Peat, Marwick, Mitchell & Co), Glasgow.
*Gouck, R. G. S. (Cram, Worsley, Robertson & Taylor), Dundee.

Haddow, C. D. (Thomson McLintock & Co), Glasgow.
*Halliday, D. (McLay, McAlister & McGibbon), Glasgow.
*Hamill, R. (John M. Taylor & Co), Glasgow.
Harding, F. A. (Thomson McLintock & Co), London.
Hart, R. J. (Kerr, MacLeod & Macfarlan), Glasgow.
Henderson, G. (James & J. H. Paterson), Greenock.
*Hepburn, J. A. (Graham, Smart & Annan), Edinburgh.
*Hervey, R. L. (Craston Thomas & Allison), Glasgow.
Hodgson, P. (Russ, Ferguson & MacLennan), Glasgow.
*Hookham, B. F. (Peat, Marwick, Mitchell & Co), Middlesbrough.
*Hutcheson, G. R. (Don & Stewart), Dundee.
Irvine, T. R. (Ritchie & Holmes), Greenock.
*Irvine, W. L. (Flockhart & Grant), Aberdeen.

*Jack, R. G. K. (Geddes, Beaton & Co), Edinburgh.
*Jacob, M. D. (Thomson McLintock & Co), London.
*Jamieson, A. McC. (John M. Taylor & Co), Glasgow.
*Johnson, R. A. (Alexander B. Neil & Co), London.
*Johnston, A. R. (Thomson McLintock & Co), Glasgow.

Kemsley, A. M. (Wardhaugh & McVean), Glasgow.
*Kidd, F. F. (Wylie & Hutton), Edinburgh.
*Kilgour, J. K. (Dunlop & Murray), Glasgow.
Kirkpatrick, J. (Henry Brown & Co), Kilmarnock.

*Laird, D. R. (Matthew Aitken), Glasgow.
Lessels, N. (Graham, Smart & Annan), Edinburgh.
Lockhart, W. (Alexander Sloan & Co), Glasgow.
*Love, J. A. (MacMillan & Copland), Glasgow.

*McAulay, R. J. (McClelland, Moores & Co), Glasgow.
*MacBeath, A. (Barstow & Millar), Edinburgh.

JOHN FOORD & COMPANY

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Telephone: Victoria 2002 (3 lines)

REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

- *McCormick, F. (James Walker & Co), Glasgow.
 McDougall, T. S. (French & Cowan), Glasgow.
 *McFadzean, D. A. (J. Cradock Walker & McFadzean), Glasgow.
 McFarlane, J. (Kelman, Moore & Co), Glasgow.
 *McGread, J. J. (A. G. McBain & Co), Glasgow.
 *MacLean, I. A. (French & Cowan), Glasgow.
 *MacLeod, E. G. (Hardie, Caldwell Ker & Hardie), Glasgow.
 *McLeod, J. (J. D. Henderson & Co), Glasgow.
 Macleod, R. H. (Russ, Ferguson & MacLennan), Stornaway.
 *Macmillan, I. (John E. Watson & Co), Glasgow.
 Macnab, C. T. (Hardie, Caldwell Ker & Hardie), Glasgow.
 *Macpherson, A. A. F. (McClelland, Ker & Co), Glasgow.
 Mair, G. (J. Wright Robb & Scobie), Glasgow.
 Malloch, J. (Arthur Walker & Co), Edinburgh.
 *Marshall, J. R. (Wilson, Stirling & Co), Glasgow.
 *Mawer, G. A. (Nairn, Bowes & Craig), Glasgow.
 Munday, R. L. (Peat, Marwick, Mitchell & Co), London.
 Mieras, (Miss) E. A. (W. P. & J. A. Scott), Edinburgh.
 *Millar, D. J. McC. (Welsh, Walker & Macpherson), Greenock.
 Miller, R. B. (Gourlay & Deas), Glasgow.
 *Milne, D. L. (Mann, Judd & Co), London.
 *Morris, I. G. (James Milne & Co), Aberdeen.
 Morrison, J. D. R. (McLay, McAlister & McGibbon), Glasgow.
 Murray, A. B. (Cram, Worsley, Robertson & Taylor), Dundee.
 Murray, L. (Chiene & Tait), Edinburgh.
 Murray, (Miss) M. I. (G. K. Johnston & Smillie), Edinburgh.
 Murray, R. McL. (Johnstone, Logie & Millar), Dundee.
- Nicol, A. D. (Richardson & Lawson), Glasgow.
 Nicolson, J. S. (Craston Thomson & Allison), Glasgow.
- Overton, K. W. (Cotman, Hooper & Co), London.
- *Paton, D. (French & Cowan), Glasgow.
 Peebles, H. B. (McCosh, Pritchard & Co), Ayr.
 Peters, L. W. (Kirk & Johnston), Glasgow.
 *Phelps, D. H. (J. Y. Finlay, Robertson & Co), London.
 *Phillips, W. A. (Kirk & Johnston), Glasgow.
- Phin, P. A. (Peacock & Henry), Glasgow.
 Pirie, J. McD. S. (William Duncan & Co), Ayr.
 *Pyka, W. S. (F. A. Ritson & Co), Aberdeen.
- *Rankine, (Miss) E. M. N. (Dalglish & Tullo), Edinburgh.
 Reid, N. S. (A. & J. Robertson), Edinburgh.
 Richmond, W. W. (McLay, McAlister & McGibbon), Glasgow.
 *Rollo, D. (Mackay, Irons & Co), Dundee.
 Ross, J. A. M. (Norman J. Bird & Co), Dundee.
 *Russell, W. S. G. (Barstow & Millar), Edinburgh.
- *Scott, R. B. (Graham, Smart & Annan), Edinburgh.
 Sharp, A. R. (Nairn, Bowes & Craig), Glasgow.
 *Sherman, C. M. (Bertram G. Samuels & Co), Glasgow.
 *Sherriff, J. B. (Richard Brown & Co), Edinburgh.
 Stewart, A. N. (Norman J. Bird & Co), Dundee.
 *Strachan, F. A. (Peat, Marwick, Mitchell & Co), Glasgow.
 *Sykes, H. R. (Thomson McLintock & Co), London.
- *Tait, G. J. (Munro & Jackson), Edinburgh.
 Thomson, J. (McMurdo, Sinclair & Co), Glasgow.
 Thomson, N. S. (Reid & Mair), Glasgow.
 *Torrance, J. (McLay, McAlister & McGibbon), Glasgow.
 Turnbull, M. (Robertson & Carphin), Edinburgh.
 *Tut, T. (Brown, Fleming & Murray), Glasgow.
- Wainman, D. P. (Brown, Fleming & Murray), London.
 *Wakid, M. H. El-s. (W. J. M. Kean & Co), Edinburgh.
 *Walker, K. J. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
 Watson, I. D. (Wardhaugh & McVean), Glasgow.
 Welsh, J. T. (French & Cowan), Glasgow.
 *Wighton, T. G. (Henderson & Loggie), Dundee.
 *Wilson, G. (Rattray Brothers, Alexander & France), Glasgow.
 *Wilson, T. K. (W. A. Wighton & Crawford), Edinburgh.
 *Wilson, W. M. (David Strathie & Co), Glasgow.
 Wishart, J. (Kidston, Goff & Harvey), Glasgow.
- *Young, R. G. (Moody Stuart & Robertson), Dundee.
 Zuill, A. M. (Wallace & Somerville), Edinburgh.

INTERMEDIATE EXAMINATION

(Second Division)

As a result of the examination held on May 19th and 20th, 1960, the undernoted 168 candidates passed the Second Division of the Institute's Intermediate examination; their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

- Abercrombie, G. M. (Mann, Judd, Gordon & Co), Glasgow.
 Ahmed, S. F. (W. J. M. Kean & Co), Edinburgh.
 Ali, M. Z. (Wylie & Bisset), Glasgow.
 Allan, A. (Scott & Paterson), Edinburgh.
 Anderson, J. F. (McClelland, Moores & Co), London.
- Barker, T. M. (Thomson McLintock & Co), London.
 Barr, J. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
 Bell, R. J. J. (A. T. Niven & Co), Edinburgh.
 Bennett, R. A. (Thomson McLintock & Co), Glasgow.
 Berry, N. (J. Harley Hepburn & Co), Kirkcaldy.
 Bowman, J. Y. (Gourlay & Deas), Glasgow.
 Boyle, J. (J. Kerr McKenzie), Kilmarnock.
 Brooks, D. J. (J. Harley Hepburn & Co), Kirkcaldy.
 Burnet, J. M. (Graham, Smart & Annan), Edinburgh.
- Cameron, A. I. McL. (Biggar, May & Co), Glasgow.
 Campbell, R. R. (Euan Macdiarmid & Co), Edinburgh.
 Campbell, T. R. (Boyack, Whitelaw & Aitchison), Edinburgh.
 Carmichael, P. K. (Hourston, Macfarlane & Co), Glasgow.
 Carr, J. I. K. (Miller, McIntyre & Gellatly), Dundee.
 Carrick, D. A. (Gibson, Anderson & Co), Glasgow.
 Coats, J. S. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
 Collier, G. J. (Williamson & Dunn), Aberdeen.
 Colquhoun, R. L. (Welsh, Walker & Macpherson), Greenock.
- Connal, E. J. G. (John E. Watson & Co), Glasgow.
 Cosgrove, R. B. (Taylor & Ireland), Glasgow.
 Couper, I. O. (Thomson McLintock & Co), Glasgow.
 Cowe, K. W. E. (Miller, McIntyre & Gellatly), Dundee.
 Craig, J. (Euan Macdiarmid & Co), Edinburgh.
 Cregan, J. F. (Henderson & Loggie), Dundee.
- Davies, T. M. (Carter, Greig & Co), Edinburgh.
 Dick, J. B. (Kerr, MacLeod & Macfarlan), Glasgow.
 Dods, E. M. (Rolland & Pomphrey), Glasgow.
 Donald, W. F. J. C. (Finnie, Ross, Welch & Co), London.
 Downie, T. (Wardhaugh & McVean), Glasgow.
 Drysdale, J. D. (Thomson McLintock & Co), Glasgow.
 Dunbar, W. R. (Graham, Smart & Annan), Edinburgh.
 Duncan, S. P. (Flockhart & Grant), Aberdeen.
- Egan, C. M. (Fleming & Wilson), Glasgow.
 Egan, W. (Allan & Clapperton), Greenock.
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 Eyewumi, U. (Alex. M. Shaw & Co), Glasgow.
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RESULTS OF EXAMINATIONS HELD IN MAY 1960

FINAL EXAMINATION

First Place and 'Arthur H. Muir' Memorial Prize
O'Hara, P. A., B.COM.SC. (Belfast).

Second Place
O'Donnell, L. (Sligo).

Third Place
Dillon, D. J. (Dublin).

*Full list of names of successful candidates
(in alphabetical order)*

Bennett, W. T. F. (Dublin).
Buttimer, R. L. (Dublin).
Clements, D. J. (Belfast).
Corcoran, J. P. (St Margarets, Co. Dublin).
Davidson, T. R. (Dungannon, Co. Tyrone).
Dempsey, R. A. (Surrey).
*Dillon, D. J. (Dublin).
Dolan, A. J. (Strabane, Co. Tyrone).
Elwood, J. C. (Glanmire, Co. Cork).
Fleury, R. McK. (Monkstown, Co. Cork).
Gallagher, D. B. (Dalkey, Co. Dublin).
Hogan, J. D. (Tramore, Co. Waterford).

Houston, J. C. (Dublin).
Hurley, J. B. A. (Dublin).
Johnston, W. K. (Lambeg, Co. Antrim).
McKenna, H. J. (Dundalk, Co. Louth).
McKiernan, F. (Corlesmore, Co. Cavan).
Meagher, P. J. (Thurles, Co. Tipperary).
Mooney, M. D. (Dublin).
Morrow, W. T. (Limerick).
O'Connor, B. (Dublin).
O'Daly, A. J. (London).
*O'Donnell, L. (Sligo).
*O'Hara, P. A. (Belfast).

O'Leary, W. M. (Cork).
O'Rourke, B. J. (Carlingford, Co. Louth).
Orr, D. H. (Belfast).
Owens, G. (Dublin).
Scott, L. (Lisburn, Co. Antrim).
Thompson, B. A. (Bangor, Co. Down).
Titterton, B. J. (Dunmurry, Co. Antrim).
Turkington, T. W. (Moir, Co. Down).
Wheeler, K. G. (Belfast).
Whelan, R. T. O. (Dublin).
Wilson, E. H. D. (Bangor, Co. Down).
Zachary, J. P. (Belfast).

36 candidates passed.

32 candidates failed of whom 2 were deferred for re-examination in one subject under Bye-law 106.

* See also place list above.

INTERMEDIATE EXAMINATION

First Place and the 'John Mackie' Memorial Prize
Delaney, D., B.COMM. (Cashel, Co. Tipperary).

Second Place
Bourke, J. O. P., B.C.L. (Dublin).

Third Place
Forshaw, G. K. (Belfast).

*Full list of names of successful candidates
(in alphabetical order)*

Agnew, W. P. (Ballymena, Co. Antrim).
Allan, S. (Belfast).
Bastible, J. C. (Dublin).
*Bourke, J. O. P. (Dublin).
Boyd Barrett, D. J. R. (Dublin).
Butler, P. A. (Dublin).
Byrne, D. J. (Dublin).
Byrne, J. G. (Dublin).
Clarke, J. A. (Belfast).
Coen, F. O. (Dublin).
Conlon, J. B. (Waterford).
Crowley, L. G. (Dublin).
*Delaney, D. (Cashel, Co. Tipperary).
Diffin, E. (Armagh).
Duffy, J. H. (Dublin).
Egan, J. F. J. (Dublin).
Entwistle, R. M. C. (Belfast).
Fleetwood, D. A. A. (Dublin).
Flood, J. D. (Dublin).
*Forshaw, G. K. (Belfast).
Glass, D. C. (Belfast).
Gould, M. P. (Dublin).
Grealy, T. J. (Tralee, Co. Kerry).

Hally, D. L. (Dublin).
Hampson, B. D. (Dublin).
Harbison, C. J. J. (Dublin).
Hayes, J. J. (Dublin).
Hession, C. E. (Dublin).
Higgins, T. P. (Dublin).
Hogan, C. D. (Tramore, Co. Waterford).
Howley, E. T. (Sligo).
Hughes, A. P. J. (Dublin).
Jackson, R. L. (Belfast).
Kelly, T. E. A. (Dublin).
Kosky, R. (Dublin).
Loneragan, C. (Carrickmacross, Co. Monaghan).
Low, K. T. (Dublin).
McCracken, G. C. J. (Dublin).
McElwee, R. J. (Ballina, Co. Mayo).
McGowan, J. A. (Dublin).
McKeon, V. E. S. (Dublin).
Maxwell, T. B. (Bangor, Co. Down).
Millar, J. (Newtownabbey, Co. Antrim).
Moran, J. D. (Dublin).

Moulton, R. A. (Dublin).
Mulvany, P. J. (Dublin).
Murnaghan, P. G. (Dublin).
Murphy, P. J. (Carney, Co. Sligo).
O'Brien, L. (Limerick).
O'Callaghan, P. J. (Dublin).
O'Daly, R. K. (Thurles, Co. Tipperary).
O'Hara, P. J. (Dublin).
O'Kennedy, O. T. (Dublin).
O'Sullivan, D. (Cork).
Patterson, T. A. W. (Belfast).
Phelan, T. P. (Dublin).
Plunkett, O. A. (Dublin).
Reilly, W. J. (Bray, Co. Wicklow).
Robson, J. E. (Dublin).
Scully, B. P. B. (Killarney, Co. Kerry).
Smith, P. G. (Dublin).
Smyth, P. A. (Dublin).
Vance, D. U. (Belfast).
Veale, T. M. (Dublin).
Walsh, P. C. (Dublin).
Ward, A. R. (Dublin).
Woods, J. K. (Dublin).

67 candidates passed.

* See also place list above.

98 candidates failed.

PRELIMINARY EXAMINATION

*Full list of names of successful candidates
(in alphabetical order)*

Balmer, R. C. G. (Dublin); Cope, S. D. (Castledermot, Co. Kildare); Edgar, G. R. (Greyabbey, Co. Down); Forsyth, J. C. (Dublin); Hunter, R. (Larne, Co. Antrim); Kinahan, P. J. (Dublin); Maybury, C. S. (Dublin); Osborne, J. C. (Belfast).
8 Candidates passed.

16 candidates failed.

SUMMARY OF RESULTS

	Final	Inter- mediate	Pre- liminary	Total
Candidates successful	36	67	8	111
Candidates failed	32	98	16	146
Candidates sat	68	165	24	257

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Combined Operations

A LETTER to THE EDITOR, reproduced under 'Correspondence' on another page, registers a double-headed complaint from 'Seventeen provincial accountants' against (a) the treatment alleged to be meted out by some local tax inspectors to professional accountants in appeal cases; and (b) 'professional bodies and periodicals' for what the writers regard as a disproportionate amount of attention which they feel is accorded to some major issues, as against matters which concern practitioners in small provincial towns.

To take the second point first: the national bodies and the professional Press paint on a broad canvas. They must seek to serve all tastes and satisfy all needs; a task in which, from an individualistic standpoint, they must inevitably fail in some measure. On the other hand, the man who does not look beyond his immediate interests will achieve little - professionally or otherwise.

Speaking for ourselves, we are not complacent in this matter. For nigh on a century we have regarded it as a responsibility to serve to the utmost of our capacity the interests of all sections of our readership; in this we like to feel that our efforts have not been in vain. There is, however, a further aspect: as *The Economist* stated on July 2nd, in commenting on criticisms of the Press from another quarter - 'Good newspapers are made by good journalists (and good proprietors) - and by good readers as well.' The italics are ours for the implications are important: the effectiveness of a newspaper, whatever its *métier*, depends upon the degree of co-operation between those who produce it and those who read it.

On the other head of the complaint, it may fairly be observed that the relationship between the Inspectorate and professional accountants is on the whole amicable. This has been evinced on both sides and from most districts. At the same time, it is natural that there will be exceptions.

Technical aspects apart, one wonders if irritation may not sometimes be attributable to the actions of overzealous subordinates; for neither tax inspectors nor practitioners - any more than principals in other offices - always originate letters which bear their signatures. Nevertheless, the results may not be condoned - nor should the circumstances be overlooked.

It seems not inappropriate to suggest that on both counts, our readers' complaint involves a combined operation: between inspectors and practitioners on the one point; between readers and editors on the other.

FINANCE BILL

Taxing Capital Gains—II

AS soon as the report stage of the Finance Bill was completed the Bill was re-published once again, with most of the clauses once again renumbered. The clause we discussed last week, which began as clause 19 and was commented upon as clause 20, is now clause 21. Originally of modest length, it has now swollen to four and a half pages and has thirteen sub-clauses. Many an Act is shorter.

The example we gave last week of the operation of clause 21 shows that where there is only one class of share capital, the sale price of the shares is the figure which ultimately determines the value to be placed on the trading stock for the purpose of arriving at the clause 21 liability. There is provision for estimating the market value of other assets (not being goodwill or assets on which capital allowances are given) but not the trading stock. However, where the company has more than one class of shares, and the sale is not of the whole issued capital, then in order to arrive at the 'proper consideration' for the whole issued capital it is necessary to value the trading stock at market price (sub-clause (6), proviso). The notional profit on the whole trading stock is then calculated as before but the proportion of it to be allocated to the shares actually sold is not arrived at on a purely arithmetical basis but is 'such proportion as may be just having regard to the number and nature of the shares sold and the rights attaching thereto, as compared with the number and nature of all the issued shares in the company and the rights or different rights attaching thereto'. Since there is nearly always room for argument as to what trading stock is really worth, the seller of part of a company's issued capital who is caught by clause 21 will usually be in a better position if the issued capital is not all one class. This will be particularly so where the written-down value of the company's factory, plant or machinery is much below the market value.

An attempt to prevent clause 21 from imposing double taxation is contained in sub-clause (12), which deals with balancing charges

made on a company after tax has been charged under clause 21 on a seller of shares in it. THE SOLICITOR-GENERAL attempted to explain this sub-clause when he introduced it in the House of Commons at the report stage. According to the Official Report¹ this explanation appears to have baffled most of the House, including at least three chartered accountants, and therefore it may be helpful if we attempt to expound sub-clause (12) at some length.

It will be recalled that in computing the company's notional trading profit, for the purposes of assessing the 'appropriate proportion' thereof on the seller of shares, clause 21 (3) (5) provides for the exclusion, from the proper consideration for the whole issued capital, of amounts referable to assets which are *not* trading stock. The obvious amounts to be attributed to capital assets for this purpose are of course their market values, and clause 21 (5) (c) accordingly provides. But clause 21 (5) excludes this method of valuation in the case of assets on which capital allowances have been given. This does not proceed on any basis of logic but to save the trouble and possible dispute which might arise on a market valuation. Such assets, which we will call 'capital allowance assets', are to be valued at their income tax written-down value, i.e. the 'unallowed expenditure' at the time the shares were sold.

If the buyer of the shares regards the capital allowance assets as being worth more than their written-down value, and fixes his offer accordingly, it is manifest that the unfortunate seller will be paying, under clause 21, tax which is not merely the company's tax, but is also tax on a capital profit which would not be taxable in the company's hands. This is anti-avoidance gone mad. Indeed, the buyer may be buying up the whole share capital for the sole purpose of acquiring the company's very valuable factory which is on a site which chance has made highly desirable. However, no provision is made to exclude any such capital element at the time of the sale of shares. The seller must swallow

¹ Hansard, July 6th, 1960.

the camel of being assessed on what would be a purely capital profit of the company, but he is allowed to strain at the gnat of a subsequent balancing charge. Clause 21 (12) achieves this by restricting the subsequent balancing charge to a maximum amount, which is designed to exclude that element which has already been effectively taxed under clause 21.

Before examining the quaint and somewhat mystifying wording of clause 21 (12), it is helpful to consider the problem which faced the draftsman. To take the simplest of all cases; if the whole share capital was sold, and precipitated a clause 21 assessment, and then immediately afterwards a capital allowance asset was sold (before any further capital allowances had been given), the obvious adjustment under clause 21 (12) would be to cancel the balancing charge altogether. Suppose now that only one-tenth of the share capital had been sold and had attracted clause 21 liability. In such a case the obvious adjustment would be to remit one-tenth of the balancing charge, in order to allow for the one-tenth already taxed; in other words to restrict the balancing charge to nine-tenths of normal.

Assume now that further capital allowances were given after the clause 21 sale of shares but before the asset was sold. To the extent to which the normal balancing charge clawed back the subsequent allowances, then on the peculiar logic of clause 21 no restriction of the charge would be called for. This is because, in the original clause 21 computation the subsequent capital allowances would not have been reflected in the written-down value of the asset. Now if the balancing charge, independently of clause 21 (12), would have extended to the whole of the allowances given, i.e. if the sale price equalled or exceeded original cost, the logical restriction of the charge would be the appropriate proportion (one-tenth in our example) of the allowances deducted in arriving at the written-down value as at the time of sale of the shares.

However, a further complication enters if the ordinary balancing charge falls short of the total allowances given. General income tax law contains no provision for apportioning a balancing charge over the period during which the asset was used. To provide for this added complication, the draftsman has adopted the mystifying formula in clause 21 (12). He provides for a maximum

balancing charge, arrived at by aggregating two elements; (a) and (b). In ordinary layman's logic (b) comes first; it is the full balancing charge after deducting the 'appropriate proportion', i.e. in our example nine-tenths of the full balancing charge. Now to prevent the company from obtaining an advantage in respect of allowances on which clause 21 tax has not been suffered, one adds element (a), being the appropriate proportion of the allowances given after the sale of the shares. By adding (a) to (b) and thus increasing the maximum charge, one automatically reduces the clause 21 (12) relief.

Example

Assume that in our last week's example (where S. sold for £20,000 his one hundred of the 1,000 shares of Boatbuilders Ltd, and bore tax under clause 21 on £12,000) that the 'plant and machinery, written-down value £15,000' was in fact a single machine which the company subsequently sold in any of the various circumstances hereunder:

	A. £	B. £	C. £	D. £	E. £
(c) Original cost of machine ..	20,000	80,000	16,000	20,000	15,020
(d) Written-down value when shares sold ..	15,000	15,000	15,000	15,000	15,000
(e) Subsequent allowances ..	Nil	5,000	800	5,000	15,000
(f) Written-down value when machine sold ((d)-(e)) ..	15,000	10,000	14,200	10,000	Nil
(g) Machine sold for ..	20,000	80,000	40,000	16,000	40,000
(h) Normal balancing charge;* ..	5,000	70,000	1,800	6,000	15,020
(i) (e) made up of ..	Nil	5,000	800	?	15,000
(j) and ((c)-(d)) ..	5,000	65,000	1,000	?	20
(k) Maximum balancing charge:					
(a) = $\frac{(e)}{10}$..	Nil	500	80	500	1,500
(b) = $9/10 \times (h)$..	4,500	63,000	1,620	5,400	13,518
(a) + (b) ..	4,500	63,500	1,700	5,900	15,018
(l) Relief under clause 21 (12) ((h)-(k)) ..	500	6,500	100	100	2

* i.e. The excess, over written-down value, of the lower of (x) cost or (y) sale proceeds.

Example E. is particularly striking. It is probable that much of the clause 21 assessment of £12,000 must have been referable to a capital profit on the machine, but all the relief which the company receives is a £2 reduction of the balancing charge. Similarly, in Example D. the relief is confined to one-tenth of what the balancing charge would have been had the machine sold for the £16,000 at the time the shares were sold. The capital profit element is still taxed.
(To be concluded.)

Accountants' Legal Liabilities

POSITION UNDER CIVIL AND CRIMINAL LAW

by J. C. ARNOLD

THE position of an accountant, whether he is acting as a company auditor or as financial adviser to a leading shareholder, is subject more and more to the light of publicity, and it will be noted that in the recently issued White Paper (Cmnd. 915) on the proposed enlargement of trustees' powers of investment, it is suggested that trustees who invest in securities outside the present scheduled list should be allowed to do so only on the written advice of a 'competent financial adviser, such as a stock-broker, accountant, or bank manager'. In other words, the position of an accountant as a financial adviser is publicly and officially recognized. It behoves him, therefore, to be fully alive to his responsibilities if he undertakes such work.

The Accountant as Financial Adviser

Two recent cases which have a distinct bearing upon the position and status of an accountant in the light of these circumstances have been the subject of reference in this journal, but are important enough to merit more detailed consideration. The one, *De Savary v. Holden Howard & Co*, (*The Times*, January 12th, 1960) deals in particular with the accountant as a financial adviser; the other, *R. v. Shacter* ([1960] 1 All E.R. 61) Court of Criminal Appeal, decided for the first time that for purposes of criminal liability, an auditor of a company is an 'officer' of the company within the definition of the Companies Act, 1948, and as such is liable to prosecution for dishonesty.

In the first case, the facts disclosed that the plaintiff was the managing director and virtual owner of three companies for whom he found it necessary to extend his credit facilities with the bank to whom the companies were already indebted. The bank suggested that before they could come to a decision, the plaintiff should supply them with a financial report on the trading and general financial position of the companies. The defendants, chartered accountants, were employed to make such a report; they duly carried out the work and made a report to the bank, who on the plaintiff's instructions had given the order for the report to be made.

After the presentation of the report, the plaintiff asked the accountants to advise him generally

on the wisdom of borrowing more money for the development of the companies. This the accountants did and acting upon their advice the money was borrowed. Unfortunately, the companies did not thrive and as a result the plaintiff suffered considerable loss. He then proceeded to sue the accountants for negligence based (a) upon alleged misleading statements in the report which had been made for the information of the bank; and (b) upon the advice which the accountants gave regarding the propriety of raising more finance for the future development of the companies.

On the first point, namely, the actual report, the plaintiff was non-suited on the ground that the accountants were under contract to the bank and not to him. They were given the order by the bank, not by the plaintiff, and they were not informed that the report was intended to be acted upon by the plaintiff. This was a matter of the law of contract and need not be elaborated. But the learned trial judge went further and on the question (b), the liability of the accountants as financial advisers, he held that while they were under contract to the plaintiff in this respect, their advice could not in the circumstances be regarded as disclosing professional negligence. One must, therefore, look more closely at the substance of the report and see what the alleged negligence was.

The evidence on which the report was made was supplied by the plaintiff's companies and consisted of the companies' books of account. As it turned out, these books contained a serious misstatement of the amount of the stock in hand and the work in hand of two of the companies, the value of the stock being overestimated. To establish professional negligence it would be necessary to show that the statement of accounts was carelessly prepared by the accountants, or that the accountants were under an obligation to satisfy themselves that the companies' books represented the true position of the companies. The books of the companies were inaccurate, but there was nothing to raise the suspicion of the accountants or to support the contention that they had not taken reasonable care in their examination of them. Therefore, the allegation of negligence as financial advisers could not be sustained.

• Pledge of Professional Skill

An accountant, like any other professional man, is expected to bring the skill, experience and training of his profession to the work on which he is employed. In the words of the old Latin maxim – *Spondet peritiam artis* – he pledges his professional skill, no less and no more. There are many circumstances in which companies have sought to make an accountant liable for loss consequent upon a misleading statement in his auditor's report; and these apply to an accountant whether he is working in his own capacity as an auditor of the company or making a special report to be acted upon by the board of the company.

Certain leading cases have dealt very specifically with this matter of an auditor's responsibility and the conclusions to be gleaned from them are applicable to an accountant, whether he is preparing his annual audited statement or making a special report for the information of the company. The litigation arising out of *Re Kingston Cotton Mill Co* ([1896] 1 Ch. 6) turned almost entirely upon the responsibilities of an auditor in connection with statements made in his reports, and from this case the following general conclusions may be accepted as still authoritative.

An auditor can only find out the position of a company by examining its books, and he must take reasonable care to see that the books represent the company's position. But an auditor is not bound to do more than exercise reasonable care and skill. If there is anything to excite his suspicion he must pursue it until the suspicion is cleared up – but again, the suspicion must be a reasonable one, and the accountant is not expected to go and delve unduly into matters that have been handled by trusted agents of the company. He is entitled to assume that they are *prima facie* honest men, though he may not necessarily agree with their methods or conclusions. According to Lopes, L.J., (*Kingston Cotton Mill Co No. 2*, [1896] 2 Ch. 285),

'he is a watchdog not a bloodhound – it is not the duty of an auditor to take stock – he is not a stock expert: there are many matters in which he must rely on the honesty and accuracy of others. He does not guarantee the discovery of all fraud'.

Auditor as 'Officer' of a Company

The case of *R. v. Shacter*, turned on the question of the criminal responsibility of an auditor in connection with publishing fraudulent statements and falsifying books as an 'officer' of a company. The defendant, Shacter, was the auditor of a company, and had been indicted and found guilty at the Assize Court of various offences involving dis-

honesty. He was indicted under some eight counts, of which some were laid under Sections 83 and 84 of the Larceny Act, 1861, and the remainder under Sections 328 (1) (j), 330 and 331 of the Companies Act, 1948. In all the counts of the indictment, the offences laid were offences said to have been committed as an 'officer' of the company. In the Court of Criminal Appeal the point was taken by the appellant that, as an auditor, he was not an 'officer' of the company and therefore the indictment was bad in law. There was no criminal responsibility.

The decision of the Court of Criminal Appeal was delivered by the Lord Chief Justice and though it deals with a situation in which one hopes that a qualified accountant may not find himself involved, it is of interest as marking the first case in which it has been held by a superior Court that for the purpose of fixing criminal responsibility, an auditor performing his functions as such, is an 'officer' of the company. The decision covers the case of an auditor of a company appointed under Section 159 of the Companies Act 1948 as distinct from an appointment for some *ad hoc* purpose, e.g. to make a report on some particular project or make some particular financial investigation lying outside the duties normally discharged by an auditor to meet the requirements of the Companies Acts.

Earlier Decisions

It has been held in certain well-known cases, that for the purpose of fixing civil responsibility for misfeasance under the Companies Acts, an auditor may be an 'officer of the company', see *London and General Bank* ([1895] 2 Ch. 166) and *Re Kingston Cotton Mill Co* ([1896] 1 Ch. 6). In referring to these cases, the Lord Chief Justice pointed out that this treatment of an auditor 'as an officer' was not dependent upon his being defined 'as an officer' under the articles of the companies, but on the fact that he was appointed to the office of auditor and was discharging at the time the normal duties under the Companies Acts. It was true, said his Lordship, that the cases he referred to were dealing with civil liability, but the Court saw no reason to draw any distinction in a criminal case. Section 332, which was the present misfeasance section (1948 Act), must be taken to have been passed, and passed in virtually the same words as the earlier Acts, with full knowledge of the decisions referred to. It was a section which followed closely the sections creating criminal offences, and the Court saw no reason to give any different interpretation to the word 'officer' in the penal section, to that given it in Section 333.

In reviewing the judgment in the case of *Shacter*, which on the particular facts has assimilated the position of an auditor, both as regards civil liability for misfeasance and criminal liability for dishonesty, it is important to be alive to the fact that it only covers the position of an auditor, who, in his position at the time, was performing the functions of a *de facto* auditor and officer. The Lord Chief Justice, in the main, based his conclusions on the view that no real difference was to be drawn between an auditor who was liable for misfeasance as an officer of the company, and one who, while performing the same functions, was guilty of criminal dishonesty. They were both liable as officers.

Line of Demarcation

But in determining liability for misfeasance, the Court of Appeal in *Re Western Counties Steam Navigation & Milling Co* ([1897] 1 Ch. 617), made it plain that there was a clean line of demarcation between an auditor who was employed for a limited purpose and one who was a statutory officer. In the words of Smith, L.J.,

'Some auditors are officers of the company and some are not, it is no good showing that a person was doing auditor's work -- it must be shown that he is a *de facto* officer of the company.'

In the case before the Court, a firm of chartered

accountants prepared a balance sheet, and later were employed to audit the accounts. They were never appointed auditors by the shareholders in general meeting and could have been dismissed by the directors at any time or, possibly, after some agreed notice. It was sought to make them responsible for misfeasance, but it was held that though they might be doing auditors' work, they were not officers of the company and could not be held liable for misfeasance. It is conceivable, however, that there might be cases in which persons, though not regularly appointed, might be *de facto* officers of the company and so liable for misfeasance.

In fixing criminal liability the same analysis would have to be used. It is to be remembered, moreover, that in criminal charges a very strict standard of proof has to be applied, and the accused is entitled to have any reasonable doubt resolved in his favour. These limitations must not be ignored, but kept well in view in drawing any general conclusions from the decision in *Shacter's* case. Not every man who goes under the name of an auditor, and is so styled in his employment by a company, is an officer and liable to prosecution as such. He must be one who is acting within the functions of a statutory auditor under the Companies Acts, and not merely within the class of persons whose duties are limited to some special work.

THE ACCOUNTING WORLD

The Profession in Italy

by JAC. KRIKKE, Ec.DRS.

Assistant Secretary of the Nederlands Instituut van Accountants

OUTSIDE Italy comparatively little is known of the structure of the accountancy profession in that country. It may thus be of interest to set out some of the facts of its organizational framework.

As two kinds of experts are working in the field of accountancy in Italy, viz. *dottori in economia e commercio* and *ragionieri*, Italian accountants are united in two professional bodies -- the Ordini dei Dottori Commercialisti and the Collegio dei Ragionieri e Periti Commerciali.

The *dottori* and the *ragionieri* have a lot in common, but the wording of the Act of 1953 regulating the profession does imply a difference. A French description of the Act, referring to the nature of the business activities of the *dottori*, says that they cover commerce, economics, finance, fiscal matters and administration (including book-keeping). As to the *ragionieri* book-keeping comes first and their

activities then range over the other subjects. Before one can form an idea of the present conditions of the profession in Italy, however, some of its history has to be related.

Early History

Italy produced the first association of accountants in 1581 when the Collegio dei Raxonati was formed in Venice. This organization had some eighty years later attained the status of a powerful craft guild, membership of which was obligatory before an accountant could practise. Among other things, candidates had to serve an apprenticeship of six years in the office of a public accountant. A second society was that of the Milan accountants, established in 1739, and it is worthy of reference that in 1748 an official rule was made that certain public appointments could be held only by members of the

Collegio. This privilege, however, was subsequently withdrawn owing to opposition from other factions.

In later years the development of the profession was most intensive in the northern parts of Italy. In 1805 Lombardy and Venice enforced an Act stipulating that the right to practise as a *ragionere* would only be given to a special category of persons named on a list kept by the secretarial office of the prefecture. But for the thus 'registered' accountants it was forbidden 'all men to carry on the profession of accountant or to sign as such'. In Article 27 of the above Act it says that an accountant should sign his professional documents mentioning his qualification.

In 1866 circumstances had changed; by then only commercial-technological institutes were entitled to grant the certificate of *ragionere*. As there was no law regulating the actual practice of the accountant's profession, however, unqualified *ragionieri* could also continue their occupations in the domain of accountancy. In some parts of Italy the officially qualified *ragionieri* now formed associations termed *collegii dei ragionieri*.

Another important year was 1906. After many difficulties the hitherto free profession of *ragionere* was then regulated by law. In each Italian province a *collegio* was instituted. To be admitted as a member to such a *collegio* it was necessary for the prospective entrant to show proof of adequate theoretical education and practical experience by way of a certificate granted by the economics or commercial department of an *istituto tecnico* or of an *istituto dei commerciali* and, after an obligatory two years' apprenticeship, a pass certificate in an examination covering the practical aspects of the accountancy profession.

The profession of *ragionere* developed steadily, but eventually, as the result of internal discord, a new trend became evident. Students having finished their studies at a college of economics (formerly *istituto dei commerciali*) withdrew from and no longer joined the *collegii*; they founded their own associations which filed their membership registers at the Courts of Justice.

The coming into being of two categories of accountants and the arising of dissensions between them resulted, in 1929, in two sets of rules, one dealing with the profession of *ragionere* and the other introducing officially the profession of *dottore in economia e commercio*.

After 1929 the profession developed further along these lines and the Act of 1953, as already mentioned, provided new regulations for the entire profession.

Training Requirements

The degree of *dottore in economia e commercio* is granted to those who have completed their education at a university. The general training of the *dottori* is divided into three sections: (1) book-keeping, accounting and business administration; (2) industrial and commercial economics; (3) theory of finance and

credit systems. Supplementary courses in specialized subsidiary subjects can be taken as well.

The certificate of qualification in economics and commerce, however, does not entitle the bearer to practise as an accountant. A State examination has to be passed as well.

The certificate of qualification as a *ragionere* is granted after five years of study at a commercial-technological institute. To be admitted to such an institute it is necessary to be a graduate of a secondary school with a three years' course that is taken after primary school. The time-table of the training at the commercial-technological institutes is as follows:

- First year:* General instruction, no specific professional training.
- Second year:* *Computisteria* (accounting).
- Third year:* *Ragioneria generale* (business administration).
- Fourth year:* *Ragioneria applicata* (applied business administration, dealing with industrial, banking, commercial and other enterprises).
- Fifth year:* Various subjects: financing, company law, mergers, liquidation, bankruptcy, municipal and management accounting.

The final examinations are held in every Italian province. Examiners are professors who do not lecture at the institutes where the candidates have been trained. The leaving certificate, granted after passing the final examination, does not, however, entitle the graduate to practise the profession of *ragionere*. His name has to be entered in one of the professional registers first as will be seen later.

The Professional Bodies

The Ordine dei Dottori Commercialisti has been organized according to the geographical division of the country: in every district where at least fifteen *dottori* carry on the profession of accountant, a professional society is formed; it is governed by a council. The Ordine comprises two categories of *dottori*: (a) those not in public practice (e.g. employed in industry, by the Government or as teachers); (b) those in public practice (these accountants are enlisted in the so-called 'register').

Prior to 1940 a graduate who wanted to be registered as a *dottore commercialisti* in public practice was obliged to do a two years' apprenticeship in the office of a registered *dottore*. His term being finished the graduate had to pass another examination, organized by the Ministry of Education and held at a university other than that at which the *dottore* finished his studies.

After the last war admittance to the 'register' was made easier. Consequently, also, *dottori* who had not passed the State examination were enrolled. The *dottori* thus registered incurred the obligation to sit for the examination later if required, but up to 1956 this condition was not often upheld. On December 8th, 1956, however, the obligation was enforced again.

This State examination is of a more theoretical nature than that which the *ragionieri* have to pass, but it also stresses the practical aspects of the accountant's profession.

The Collegio dei Ragionieri (also organized according to the regional division of Italy) firstly comprises persons in possession of a certificate granted by a commercial-technological institute. They can immediately be admitted to the Collegio but can only practise as registered *ragionieri* after completing a two years' term of practical work in the office of a registered *ragionere* and after passing an examination at the end of this period. This examination, which is held by a committee of registered *ragionieri* is mainly of a practical character and aims at determining whether the candidate has indeed the ability for carrying on the public practice of a *ragionere*.

Work of Italian Accountants

Regarding the activities of Italian accountants it would be instructive if a comparison with other countries could be made; this, however, is difficult. When writing this article I happened to read a report (dated 1958) issued by the Compagnie Nationale des Experts Comptables, one of the associations of *experts comptables* in France. In this report – entitled '*La réforme de l'enseignement et des programmes en vue de la formation de l'expert comptable*' – it is pointed out that the conditions under which the profession in Italy is carried on are different from those in France.

The report says the *ragioniere* are *un peu les experts comptables* whereas the *dottori commercialisti* are the *avocats commerciaux* who act as insurance brokers for companies and function in cases of bankruptcy, liquidation, etc. The profession in Italy, the report says, is quite different from that in France with its *experts comptables* and *comptables agréés*.

The Italian accountants' functions are also dissimilar to those of Dutch auditors. Whereas the latter's professional activities consist mainly of auditing, the Italian accountants, though auditing too, perform many a duty of quite a different nature.

Before the Second World War every Court of Justice kept a register of experts to whom the Court could apply for the performance of a variety of assignments. The names of *dottori commercialisti* and *ragioniere* in public practice, as well as those of lawyers, could be enlisted in these *albi*. From the *albi* the Courts selected the persons to be charged with valuations, with the duties of a trustee in bankruptcies and liquidations, with the office of solicitor, administrator, expert and consultant in business affairs, with guardianships, arbitrations and many other functions. For some of these appointments the *dottori* are given priority over the *ragionieri*.

Auditing

A second function of the Italian accountant springs from business life; it includes the audit of annual

accounts, reorganizations of enterprises, the solving of problems of financing, mediation for the procuring of capital, dealing with tax affairs, keeping accounts, etc.

Public companies and private companies in Italy are obliged by law to have a *collegio sindacale* (the latter only when their capital amounts to more than one million lire). The *collegio sindacale* is elected at the shareholders' meeting and it has three, five or more members and some deputy members. When the company's capital exceeds five million lire and its *collegio sindacale* has three members, then one of them (when there are five members, two of them, and so on proportionately) has to be selected from a special register, the 'register of auditors'. Also, one of the deputy members must be enrolled from this special register. These auditors are appointed for a period of three years. The *collegio sindacale* has to make an audit in the enterprise concerned every three months; an obligatory cash audit forms part of this audit.

The company's balance sheet has to be approved within four months after the fourth quarterly audit. Therefore the board of directors must submit the annual accounts and the annual report by the last month of this four months' period to the *collegio sindacale*. The *collegio* makes its audit in about a fortnight and gives its short form report on the completion of the audit. The *collegio sindacale* must also draft its own (long form) report and call the shareholders' meeting for the discussion of the annual accounts. The annual report of the board of directors, the annual accounts and the report of the *collegio sindacale* must be available for inspection in the company's offices fourteen days prior to the shareholders' meeting.

The purpose of the 'register of auditors of annual accounts' (*revisori dei conti*) is to give companies an opportunity of choosing their independent auditors from a list of persons who meet several requirements, e.g. those who have held a company directorship or appointment as auditor of a company for some years.

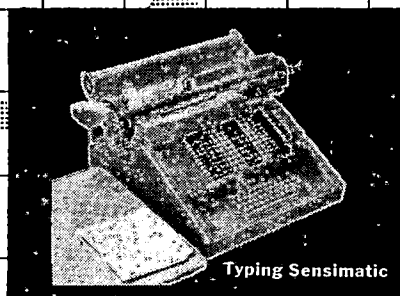
Integration ?

The differences between the two bodies were referred to by Professor A. Grosso as far back as 1929 in a paper on education for the profession which he delivered to the International Congress of Accountants in that year. He remarked that both categories only differed in importance 'according to the different educational training of the two classes'.

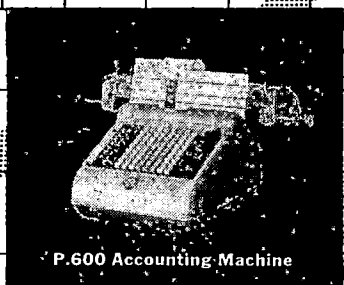
Though it is rather difficult to get a good impression of the relations within the accountancy profession in Italy, the former distinctions between the *dottori* and *ragionieri* seem to have become gradually less wide. In this connection it is interesting to observe that from time to time attempts are made to achieve an amalgamation of the two professional bodies. It seems likely that these attempts will finally result in an agreement.



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Memorandum on Company Law

submitted to the Company Law Amendment Committee

We now conclude our reproduction of the Institute's principal memorandum to the Jenkins Committee. The section covering the first fifteen heads of evidence appeared in the issue of July 2nd, and a further part, covering heads of evidence sixteen to twenty-two, was reproduced last week. The Council hopes, in due course, to submit to the Committee a supplementary memorandum dealing with the principle involved in Section 56 of the 1948 Companies Act and with the general question of pre-acquisition profits and considerations arising on company mergers and reorganizations.

Head No. 23

PROVISIONS AS TO RETURNS

208. There appears to be no particular significance or merit in the requirement under the Sixth Schedule that the fourteenth day after the annual general meeting is the date to which the annual return must be made up.

Submission

209. *The annual return should be made up as on the date of the general meeting at which the annual accounts are laid before the company and the return should be submitted to the registrar of companies within twenty-eight days after the date on which that meeting is concluded.*

210. The main reason for the requirement to file an annual return is to make available to the public the information contained therein. The practical value of this facility is however reduced considerably because the file is available for inspection only in London, or in Edinburgh if the registered office is in Scotland.

Submission

211. *A member of the public should be entitled on payment of a nominal fee to inspect at the company's registered office a copy of each annual return duly signed by a director and by the secretary.*

212. The detailed requirements regarding the contents of the annual return need to be examined with a view to improvement and the elimination of any details which are of no practical value. Examples of matters which need attention are:

- (a) a separate form of annual return should be prescribed for companies whose issued capital consists solely of stock (see however paragraph 66 of Head No. 12)
- (b) having regard to the work involved and the doubtful utility of the information, there should be reconsideration of the requirement under item 5 of Part II of the Sixth Schedule to show in the annual return particulars of shares transferred since the last return (or since incorporation) by persons who are still members and by persons who have ceased to be members
- (c) the information to be given in respect of forfeited shares and shares issued at a discount appears to be unnecessarily detailed.

213. Similarly, an examination of the detailed requirements relating to other returns could usefully be made with the same object. For example:

- (a) the return of allotments under Section 52 (1) (a) is required to show the names, addresses and descriptions of the allottees; the inclusion of the descriptions appears to serve no useful purpose
- (b) when a company increases its capital it is required to file two statements which are almost identical, one under Section 63 and one under the Stamp Act; with slight adaptation one form could serve both purposes.

214. Such an examination of detailed requirements could however best be undertaken after the Company Law Committee has completed its work. At that stage the Council would be pleased to assist with suggestions.

Submission

215. *In due course there should be an examination of the detailed requirements regarding the contents of the annual return and of other returns.*

Head No. 24

COMPANY AND BUSINESS NAMES

Effectiveness of present provisions (see Sections 17 to 19, Companies Act, 1948, and the Registration of Business Names Act, 1916); similarity of names; misleading names

216. The Council has no major points to raise regarding the nature and operation of the Registration of Business Names Act, 1916, and the provisions of the Companies Act, 1948, relating to company and business names. The Council's attention has however been drawn to two matters which appear to need consideration:

- (a) it seems undesirable that a company should be registered with a name which is the same as that of an unincorporated organization already registered under the Registration of Business Names Act (and vice versa)
- (b) there appears to be an anomaly under the Registration of Business Names Act with the result that a Mr Smith and a Mr Brown may carry on business as Smith & Brown without being registered and complying with the requirements of the Act, but if they carry on business as J. Smith & T. Brown they are required to register and comply with the Act; it is illogical to exempt from registration where either the full names (including full Christian names) are used or the surnames only are used, but to require registration where surnames and initials are used.

Head No. 25**FOREIGN COMPANIES**

217. Companies which trade in Great Britain but which are incorporated outside Great Britain are required by the Companies Act, 1948, to give as much information about their companies as would be required of a company incorporated in Great Britain. The Council has no comment to make on this position.

Head No. 26**INTERNAL MANAGEMENT AND
ADMINISTRATION****(a) Annual and other general meetings**

218. Section 131 (1) is construed as requiring an annual general meeting to be held in each calendar year and as prohibiting the holding of more than one annual general meeting in the same calendar year. If this construction is correct the section creates unnecessary practical difficulties for some companies. Thus:

- (a) a company which normally holds its annual general meeting late in the calendar year may on occasion find that it is not possible to issue its accounts and directors' report until later than usual with the result that in order to comply with the Act an annual general meeting is held in December and immediately adjourned, the effective meeting being held in January
- (b) a company which normally holds its annual general meeting in January is prevented from holding the next annual general meeting in December of the same year even though it may have good reasons for wishing to do so.

Submission

219. *Section 131 should be amended so as to remove the requirement to hold an annual general meeting in each calendar year (which is the construction now placed on the words 'in each year') while retaining the requirement to hold an annual general meeting not later than fifteen months after the date of the previous annual general meeting but with power to the Board of Trade to extend this period on application by the company.*

220. It is normal practice to lay the annual accounts before the company at its annual general meeting, but Section 148 does not require this to be done; it requires the annual accounts to be laid before the company 'in general meeting'. An annual general meeting has little significance unless the accounts and the directors' report are laid before the meeting and it is therefore desirable that this should be a requirement of the law. (This is also desirable for another reason explained in paragraphs 194 and 195 of Head No. 22 in connection with the removal of auditors.)

221. Section 148 specifies the maximum period which may elapse between the date to which the annual accounts are made up and the date of the meeting at which they are laid before the members. This period could with advantage be reduced.

Submission

222. *Section 148 should be amended so that:*

- a) the annual accounts (at present required to be*

laid before the company 'in general meeting') shall be laid before the company at the annual general meeting

- (b) the annual accounts shall be made up to a date not earlier than six months (instead of the present nine months) before the date of the meeting at which they are laid before the members, or nine months (instead of the present twelve months) in the case of a company carrying on business or having interests abroad; provided that the Board of Trade shall have power to extend the period of six or nine months on application by the company.*

223. The minimum period of notice required for the calling of an annual general meeting is considered to be too long and it reduces unnecessarily the time available for preparation of the documents to be issued for the meeting.

224. The twenty-one days' notice for an annual general meeting may be waived by agreement of all the members entitled to attend and vote; but the period for any other general meeting may be waived by agreement of a large majority of the members entitled to attend and vote. There appears to be no necessity for the more stringent requirement in relation to the annual general meeting. The Act does not require the agreement of the auditors, although they have an important right of attendance.

Submission

225. *Section 133 should be amended so that:*

- (a) the minimum length of notice for an annual general meeting would be reduced from twenty-one to fourteen days*
- (b) notice of an annual general meeting could be waived by the same majority as that now required for any other general meeting, instead of the present requirement that all the members must agree*
- (c) having regard to Section 162 (4), which entitles the auditors to attend any general meeting and to be heard on any part of the business of the meeting which concerns them as auditors, the agreement of the auditors shall be required for the waiving of the normal period of notice of a general meeting.*

(b) Mode of passing extraordinary and special resolutions

226. The only practical difference between an extraordinary resolution and a special resolution is that fourteen days' notice of the meeting is required for the former and twenty-one days for the latter. There appears to be no merit in this distinction and the period of twenty-one days is considered to be unduly long.

Submission

227. *References to extraordinary resolutions should be removed from the Act and replaced by references to special resolutions (or vice versa) and the minimum period of notice should be fourteen days.*

228. It is generally accepted that a special or an extraordinary resolution is passed if not less than 75 per cent of those voting vote in favour. Arguments do

however arise from time to time on the basis that the words 'a majority of' which appear in Section 141 require a majority (that is to say the difference between the number voting for and the number voting against) of not less than 75 per cent; on this basis at least $87\frac{1}{2}$ per cent of those voting must vote in favour in order that the difference between $87\frac{1}{2}$ per cent for and $12\frac{1}{2}$ per cent against shall be 75 per cent of those voting.

Submission

229. Section 141 should be amended by deleting the words 'a majority of' in subsection (1) and making consequential amendments to the remainder of the section.

230. Section 143 (1) causes expense and inconvenience because it does not recognize that copies of resolutions or agreements in a form suitable for filing with the registrar can be made by means other than printing.

Submission

231. Section 143 (1) which at present requires printed copies of resolutions or agreements to be sent to the registrar of companies should be amended so that the copies shall be in typescript, either printed or copied by other means.

(c) Securing proper disclosure of information in circulars seeking proxy votes

232. In recent years it has become common practice for directors to seek proxies from members entitled to attend and vote at a meeting of the company. To comply with the requirements of The Stock Exchange, London, the practice of companies whose shares are quoted thereon is to send proxy forms to shareholders and debenture-holders entitled to attend and vote in all cases where proposals other than those of a purely routine nature are to be considered. Good practice is to word the proxy forms so that a shareholder or debenture-holder may vote either for or against each separate resolution and this could with advantage be required by law.

Submission

233. Proxy forms sent to members and debenture-holders should be in such form that a member or debenture-holder may appoint a proxy to vote either for or against each separate resolution.

(d) Exercise of voting rights in cases of interlocking shareholdings, unit trusts, and in other special cases, e.g. by trustees of pension and welfare funds for employees in relation to shares held by such funds in the employer or any associated company

234. Amounts set aside for the benefit of employees of a company, either by way of pension funds or otherwise, are sometimes invested in shares of the company. If a substantial number of shares carrying voting rights is held in this way by trustees for employees and the directors are able to influence the way in which the trustees use their votes the result may be that the directors are able to ensure that their proposals and actions are invariably approved at a general meeting of the company. Conversely the position may be such that the employees, through the trustees, are virtually in control of the company.

Submission

235. The Council expresses no opinion on the desirability or otherwise of shares of a company being held by trustees of pension or other funds set aside for the benefit of employees of that company; but where such shares carrying voting rights are held the position should be disclosed and a convenient method of achieving this would be to require them to be recorded in the register of shares and debentures held by directors (see paragraph 44 of Head No. 8).

Head No. 27

WINDING-UP

Note.—The subheadings below were not shown in the questionnaire.

Insolvent companies

Calling of meetings

236. Fourteen days' notice is normally required for a meeting of members at which to propose a resolution for a creditors' voluntary winding-up. Section 293 requires a meeting of creditors to be held on the same day or the next day, the notice to be issued simultaneously with the notice calling the meeting of members. More than fourteen days will therefore normally elapse between the date when it is decided to propose winding-up and the date when a liquidator is appointed by the creditors. During this period the state of affairs may deteriorate with the result that creditors will receive less than would have been available if earlier action had been taken to protect the assets.

237. Conversely, a meeting of creditors may be held at such short notice that those able to attend are not a representative body. This arises because Section 133 (3) enables notice of a meeting of members to be waived by agreement of a large majority of members and where this is done the effect of Section 293, referred to in the preceding paragraph, may be to require the holding of a meeting of creditors without adequate notice.

238. These conflicting considerations need to be reconciled by amendment of the law but it is also necessary to provide for the position where, through lack of information or because of the complexity of the company's affairs, it is impractical to call winding-up meetings of members and creditors within the normal time. The consequent delay in appointing a liquidator may be detrimental to the state of the company. This position could be remedied by enabling the directors to appoint a provisional liquidator in a creditors' voluntary winding-up, as the Court may do under Section 238 in a winding-up by the Court.

Submission

239. The Companies Act should be amended so that:

- (a) subject to (c) below, seven days should be specified as the period of notice required for a meeting of members at which a resolution for a creditors' voluntary winding-up is to be proposed; seven days' notice should also be required for the meeting of creditors, which should be held within twenty-four hours after the meeting of members
- (b) Section 133 (3), which enables notice of a meeting of members to be waived, should be made inapplicable to a meeting at which a resolution for

a creditors' voluntary winding-up is to be proposed

- (c) *the directors should have power to file a declaration that the company cannot by reason of its liabilities continue its business and that meetings of the company and of its creditors will be summoned for a date not more than twenty-eight days after the date of the declaration. On filing such a declaration the directors should be required to appoint forthwith a provisional liquidator to remain in office for twenty-eight days or such extended period as the Board of Trade may allow, or until the earlier appointment of a liquidator. The date of the appointment of the provisional liquidator should be treated as the commencement of the winding-up. The provisional liquidator should be protected by statute in relation to all acts properly done by him and should be entitled to adequate remuneration for his services and to reimbursement of all expenses properly incurred.*

Responsibilities of directors

240. There is little in the Companies Act to discourage directors from continuing the business of a company even though they know the company is unable to pay its creditors as the amounts due to them fall due for payment. In a winding-up by the Court Section 268 gives the Court power to summon directors and other officers or persons for an examination on oath if they are suspected of having property of a company, but this is for the purpose of discovering property of the company and not for the purpose of inquiring into the conduct of the director or other person before the winding-up of the company was commenced. Section 270 gives power to the Court in certain circumstances to order the public examination of the promoter and officers of a company which is being wound up by the Court. If there were a similar power in relation to any winding-up this would discourage directors from continuing the business of an insolvent company.

241. Section 332 makes provision for the Court to declare that any persons, who were knowingly parties to the carrying on of the business of a company with intent to defraud creditors of the company or creditors of any other person or for any fraudulent purpose, are to be personally liable, without any limitation of liability, for all or any of the debts or other liabilities of the company as the Court may direct. The section requires fraudulent intent, which it may not be possible to establish even though the directors have incurred debts in a reckless manner. Personal liability beyond the scope of this section would be a deterrent.

Submission

242. *The Companies Act should be amended to give the Court power to order:*

- (a) *the public examination of the directors and other officers of a company which is found on winding-up to be unable to pay its creditors in full*
- (b) *that any director or other officer who has been responsible for incurring debts on behalf of a company in a reckless manner shall be liable without any limitation of liability for all or any of the debts or other liabilities so incurred.*

Preferential creditors

243. Section 319 (1) (a) (ii) provides that the Inland Revenue shall be a preferential creditor in respect of taxes assessed on the company up to the fifth day of April next before the date of the winding-up and not exceeding in the whole one year's assessment. The fifth day of April refers to income tax and is inappropriate in respect of profits tax which did not exist when the section was originally drafted. The effect can therefore be arbitrary, for example when the accounting period for profits tax ends on April 30th.

Submission

244. *The reference to the fifth day of April should be omitted from Section 319 (1) (a) (ii) so that it relates to taxes assessed up to the date of winding-up.*

245. A right of subrogation is given by Section 319 (4) to a lender whose advance is used for the payment of wages, salaries, or holiday remuneration, so that he may become a preferential creditor in a winding-up in respect of his loan. The lender thus gains a benefit in the nature of an unregistered charge on the assets of a company.

Submission

246. *A lender who exercises a right of subrogation by reason of Section 319 (4) should be a preferential creditor in respect of his loan only to the extent of an amount equal to the wages, salaries or holiday remuneration paid for the period of one month before the date of the commencement of the winding-up.*

Arrangement between company and creditors

247. Section 306 (1) provides, *inter alia*, that any arrangement entered into between a company about to be, or in the course of being, wound up and its creditors shall, subject to a right of appeal, be binding on the creditors if the arrangement is acceded to by three-fourths in number and value of the creditors.

248. The circumstances of a company could be that, whereas a large proportion of the total amount owing to creditors is due to a few creditors, the majority of the creditors have small sums owing to them. In such circumstances the result of a request to the creditors to accede to an arrangement between the company and the creditors may not be answered by as many as three-fourths in number, although the arrangement may be approved by a majority greater than three-fourths in amount.

Submission

249. *Section 306 (1) should be amended so that where an arrangement between a company and its creditors has been assented to by three-fourths in value of the creditors it would, subject to appeal to the Court, be binding upon all the creditors.*

Accounts and audit

250. To comply with the requirements of Section 148 the directors of every company have to submit once in every calendar year a profit and loss account and a balance sheet to the company in general meeting. If the company passes a resolution to wind up, these requirements apparently lapse. Such accounts, made up to the date of commencement of the winding-up, should be prepared by the directors, audited and submitted to the members. In a creditors' voluntary

winding-up there is, however, the practical difficulty of lack of funds.

Submission

251. *A duty should be placed on the directors of a company to present to a meeting of members, at the company's expense, audited accounts covering the period from the last audited balance sheet to the date of the commencement of a members' voluntary winding-up. In a creditors' voluntary winding-up the creditors should have power to require such accounts to be presented to a meeting of creditors.*

252. In a winding-up by the Court the liquidator's accounts are audited by the Board of Trade. There is no provision for audit of the liquidator's accounts in a voluntary winding-up. It is desirable that the accounts should be audited, though lack of funds presents difficulty when the company is insolvent.

Submission

253. *Company law should provide that an auditor may be appointed to report on the liquidator's accounts, the appointment to be made and the remuneration to be fixed by the members in a members' voluntary winding-up and by the committee of inspection (or the creditors, if there is no committee of inspection) in a creditors' voluntary winding-up.*

Creditors paid in full

254. When, in a creditors' voluntary winding-up, the creditors have been paid in full the Companies Act does not make provision for the winding-up to be converted into a members' voluntary winding-up. When creditors have been paid in full in a creditors' winding-up, no creditors are left to fix the remuneration of the liquidator; this should be fixed by the members of the company who will be interested in the disposal of the surplus funds of the company.

Submission

255. *Company legislation should make provision for a creditors' voluntary winding-up to be converted into a members' voluntary winding-up when all creditors have been paid in full.*

Gratuities to ex-employees

256. In a members' voluntary winding-up it may be thought desirable to provide gratuities for employees of the company who are losing employment by reason of the winding-up of the company. Once the decision to wind up has been made it will not be possible to pay such gratuities unless such payments are an 'object' of the company under its memorandum of association or all the members of the company approve the payment of the gratuities. It may not be possible for members to give approval; for example, where the members are trustees, or where they are abroad.

Submission

257. *In a members' voluntary winding-up the liquidator should have power, with the approval of the company in general meeting, to pay gratuities to employees and ex-employees of the company or to classes of such employees and ex-employees.*

Contributories

258. Section 212 sets out the circumstances in which present and past members of a company may be

liable in respect of the debts of the company as contributories. The liability of a contributory is limited to the amount, if any, unpaid on the shares in respect of which he is liable as a present or past member. If therefore all the present and past members have held only fully-paid shares or stock of the company there can be no present or past members liable as contributories. Strictly however liquidators are bound under the section to prepare a list of all the present and certain past members of a company even though no one is liable as a contributory.

Submission

259. *A liquidator should not be required to prepare lists of present and past members where the capital held by those members was fully paid.*

Winding-up subject to supervision of the Court

260. Sections 311 to 315 provide a means of winding-up subject to supervision of the Court. This method of winding-up is not used at the present time and the sections have become a dead-letter.

Submission

261. *The Companies Act should be amended by deleting references to winding-up subject to supervision of the Court.*

Winding-up by the Court

262. Section 218 (3) provides that where the paid-up share capital of a company does not exceed £10,000, the County Court is to have concurrent jurisdiction with the High Court to wind up the company. The amount of £10,000 has remained unchanged since 1890.

Submission

263. *The amount of £10,000 in Section 218 (3) should be increased to £50,000.*

Winding-up rules

264. Although the winding-up rules have been amended from time to time they are now in need of further amendment both in general concept and in detail. They need codifying, indexing and cross-referencing and should be fitted to present-day needs when liquidators of companies are normally professional accountants subject to the discipline of their professional organization. The Board of Trade has power to amend the rules.

Submission

265. *The companies winding-up rules should be examined after the work of the Company Law Committee has been completed. The Council will be pleased to assist by submitting suggestions for amendment of the rules to bring them up to date.*

Head No. 28

PROBLEMS OF ADMINISTRATION AND ENFORCEMENT OF THE LAW

In particular, are any difficulties caused by provisions which appear obsolete or inappropriate in modern conditions?

266. The Council does not wish to comment.

(Concluded.)

Weekly Notes

Building Societies and Accountants' Fees

ACCOUNTANTS will be interested in an announcement about their fees which was made by the Economic Secretary to the Treasury on July 5th to a standing committee of the House of Commons. The committee was debating clause 8 of the Building Societies Bill, which empowers the Registrar to require the production of books of account and other documents relating to the affairs of a building society. It was made clear that where this power is exercised against accountants, their fees for such production would be paid. The announcement is reproduced verbatim on page 98.

The P. D. Leake Trust

IN the report on the P. D. Leake Trust for the year ended October 31st, 1959, the President drew attention to the fact that although the will gives power to retain existing investments, whether trustee investments or not, it affords no authority for the investment or reinvestment of funds otherwise than in trustee securities. The lack of authority to vary the equity investments in the light of changing conditions was handicapping the proper management of the portfolio and the Council of the Institute has accordingly applied to the Court for an extension of investment powers. A scheme has been drawn up and the Order of Pennycuik, J., establishing the scheme, together with the scheme itself, are reproduced elsewhere in this issue.

The scheme provides an example of particular interest to accountants of the way in which the Court can vary the investment provisions of a charitable trust. The Court's jurisdiction in this connection was the subject of an article in *The Accountant* of June 25th. The particular method adopted in the present case to ensure reasonable flexibility of investment coupled with security of capital has been to divide the assets of the charity into two separate funds called 'the restricted fund' and 'the extended fund' with the requirement that the restricted fund be, at the time of division, equal in value to at least one-third of the value of the whole of the trust fund. All the trustee investments comprised in the trust fund are appropriated to the restricted fund, the balance of that fund being made up from existing investments, not trustee investments, of the trustees' choosing. Those investments may be retained, but any reinvestment must be in trustee securities. The extended fund may be invested and reinvested in a wide range of securities outside the trustee range, including the fully-paid shares of companies with a

paid-up capital of at least £1 million quoted on any of a number of named stock exchanges.

As in other cases of this kind, the scheme appears to have been framed with an eye on the Government's projected legislation on the investment of trust funds. When such legislation materializes, it may, of course, be that even wider powers of investment will be open to the trustees in the present case than those which the Court has now given them.

Finance Bill Third Reading

THE debate on the third reading of the Finance Bill was somewhat mellowed by the general assumption that Mr Heathcoat Amory was shortly to retire, and that the Finance Bill was probably his last major task as Chancellor. At the report stage a few days earlier, which was in sharp contrast, the Opposition gave voice to a legitimate sense of grievance. They had agreed to an extended recess at Whitsuntide, and to a mere two days for the report stage on the natural assumption that the Bill would not be much further amended after the committee stage. In the event there were no less than 129 amendments in the name of the Chancellor, so that if only twenty minutes had been spent on each, that would have meant over forty hours debating, not counting divisions, nor debates on the motions that clauses as amended should stand as part of the Bill. As one Opposition member observed, this makes a farce of democracy. Some of the amendments were of the most extraordinary complexity; an example is dealt with in a leading article in this issue. It is evident that the Chancellor was ill-served this year in the matter of drafting; a most remarkable number of weaknesses appeared in the original draft Bill, which has now been amended almost out of recognition. Even now, after the draftsman has had three public bites at the cherry, there is a great deal of uncertainty left to clog the administration, not to mention the confusion which the Bill in its complexity and verbosity must cause in the minds of taxpayers and their advisers. A fair example of the drafting is provided by these words in clause 28 (6):

'Any person to whom notice has been given under subsection (3) of this section may within thirty days *by notice to the clerk to the Special Commissioners* appeal to the Special Commissioners.'

The words in italics could well have been omitted.

Tax Relief for the Clergy

ATTEMPTS by back-benchers on the report stage of the Finance Bill to obtain some income tax concessions for clergymen drew from the Chancellor of the Exchequer an undertaking to hold fresh consultations with representatives of all the main churches to seek to find some relief that could be given to ministers of religion without unfairness to others, and without too fundamental a breach in tax principles. He also promised to see whether a

practical way might be worth investigating of helping clergymen to find means of relieving the burden of Schedule A tax on parsonage houses. Church of England clergymen are of course at a disadvantage in that they are chargeable to Schedule A tax as occupiers, whereas clergymen in the free churches usually escape Schedule A tax on their manses.

The Chancellor also said he hoped that clergymen would avail themselves to the full of expenses claims which they could make. However, this is not much comfort, judging by some recent cases of Inland Revenue resistance to expenses claims by ministers. The Chancellor was opposing a proposed new clause to exempt the first £100 of Easter offerings.

The F.B.I. on Company Law

THE answers of the Federation of British Industries to the Jenkins Committee questionnaire appeared on Monday in the form of a booklet.¹ The Federation supports the move for no-par value shares, the formation of subsidiary companies with only one member, namely the holding company, and the giving to companies of all the contractual powers of an individual, so that companies could not avoid liability on *ultra vires* principles. The objects clause would remain, of course, but it would be merely a matter between the shareholders and the directors.

The booklet expresses strong disapproval of directors using their inside knowledge of a company's affairs to engage in profitable dealings in its shares. It suggests that the register of directors' shareholdings be normally open to the public (copies being available) during business hours, and that it should also deal with the shares of those officers of the company who normally attend board meetings. The rather curious practice of bodies corporate being directors of other bodies corporate receives the Federation's support.

The present rules as to accounts do not need substantial alteration, in the Federation's view. It prefers to leave the matter to the accounting profession, 'who may be relied on to continue to raise the standards of company accounts'. However, the booklet does recommend that sums set aside to meet future tax liabilities should be described as such, and not as 'reserves' or 'provisions'. On company and business names, the booklet has some interesting comments. It suggests that the requirements should apply to companies incorporated outside Great Britain. Where a company wishes to change its name, it should be allowed to reserve the proposed name for a limited period; similarly with a proposed new company. The Registrar should have power to withdraw a name 'calculated to mislead'. As the booklet says, the requirement that directors' names be printed in trade catalogues, circulars and showcards is of little value and is frequently disregarded; names should still be shown, however, on the company's notepaper.

The Federation would abolish extraordinary resolutions and would have a provision under which a document executed by all the shareholders would have in all cases the same effect as if it were a resolution passed in general meeting. It also recommends that power be given to issue stock. On take-over bids it does not favour the imposition of any statutory procedure, but does suggest that there be a minimum period for acceptance. If a majority of persons accepting the bid indicated their consent to a payment of compensation for loss of office, then it should not be necessary for the company in general meeting to sanction it. Where the consideration is shares in the bidding company, the same information should be given as on a prospectus for their issue. Attention is drawn to the practice of some directors, when a take-over is in the offing, of giving themselves long-term contracts so that they can obtain a large compensation payment - usually at the expense of the shareholders. This, as the booklet says, ought to be stopped.

No Par Value Shares

MORE than seventy Conservative members of Parliament have tabled a motion urging the Government to introduce legislation to give companies power to issue shares with no par value. They recall that the Gedge Committee recommended this as long ago as 1954. One of the sponsors is Mr Geoffrey Stevens, M.P., F.C.A.

An Accountant's Establishment

THE House of Commons adjournment debate on July 5th (which began at 11.43 p.m.) was devoted to discussion of the refusal of planning permission to Mr Ancrum Evans, F.C.A., in respect of two houses in Eccleston Square, Westminster, owned and occupied by him, partly as a residence and partly for the purpose of his practice as an accountant. One room used for the practice is a large first-floor room which Mr Evans desired to convert into a nursery for his three small children. He sought planning permission to use two smaller rooms in the next house for his practice, in place of the upstairs room which was inconvenient as an office. This permission was refused by the London County Council and by the Minister on the ground that there was a desperate shortage of residential space in London.

The Parliamentary Secretary to the Ministry of Housing and Local Government admitted that Eccleston Square was 'littered with offices', but added that since 1955 no further permission for office use had been given. He suggested that Mr Evans might like to convert one of the houses for the purpose of residential use. If his accountancy practice was growing, he should seek office space elsewhere. However, if Mr Evans could show new facts in support of his application they would be considered.

¹ *Company Law*, 21 Tothill Street, SW1. Price 2s.

Bank Report's 'New Look'

THE forthright criticisms of the Radcliffe Committee on the paucity of information provided by the Bank of England have, as the Chancellor promised in the debate on the report on the working of the monetary system, produced results. The Bank's latest report for the year ended February 29th, 1960, published last Tuesday afternoon, is a much expanded document consisting of some twenty pages of

commentary on recent events in the monetary field, together with a thirty-page statistical section giving money rates, bond yields, analyses of advances and other clearing bank assets in recent years. In addition, the first issue of a quarterly bulletin is promised for the end of 1960. The report, which will be discussed more fully in next week's issue, is to be welcomed as a first step in facilitating informed public discussion on this highly contentious matter of monetary policy.

This is My Life . . .

by An Industrious Accountant

CHAPTER 33

MORNING newspapers are, surprisingly enough, the bane of the accountant's life. In my company their possession is a mark of prestige, and the right to read them in office hours is a cherished and envied privilege. Our directors each receive two in the morning and peruse them at leisure when they have dealt with their first batch of post; the traditional assumption is that they are briefing themselves on the most up-to-date international trading conditions or on the latest message to industry of the Chancellor of the Exchequer. No one is so tactless as to point out that the chairman is more interested in Ascot than in foreign exchange.

The sales manager and I, as hereditary crown princes, read one paper each in full view, occasionally commenting learnedly on company reports and accounts or on reviews of taxation cases. Woe betide the impertinent clerk who insists on obtruding himself with a query when my paper is open at the contract bridge page. I am endeavouring to inculcate in my staff a wary appreciation of a special frown which may be interpreted as 'Do not disturb'. In the general office, some privileged junior clerks look for shipping news, familiar names in the obituary column and so on, and peep surreptitiously at the sports pages. These are folded over hastily when our top brass stalk through.

I was shocked, therefore, when I entered the audit room at 9.45 a.m. and found three junior auditors blissfully immersed in newspapers. Though they had arrived at 9 a.m. their brief cases were still locked, their desks bare of working papers; the impression of slothfulness was unmistakable, especially to my chairman, who came in simultaneously.

Even as his eyebrows came down irascibly, their youngest member, a curly-haired cherubic lad, leaning on the radiator, spoke up innocently; 'Do you fancy "Man o' War" for Saturday? My brother-in-law is a trainer and he says the going is too hard for him.'

His innocent expression masks a keenly Puckish disposition and the question was an invitation to a dalliance which would lower staff morale, so I decided to snub him. But how? To indicate that he was paid to work was churlish; to say I didn't follow greyhounds invited repartee; I remembered he'd been found asleep over the ledger balances last week. I was just clearing my throat sternly when the chief interrupted.

'Man o' War' knows that course backwards', he grunted. 'What does your brother-in-law think of "Roland's" chances?' In a moment they were at it hammer and tongs, paper open at a chart of the course, fingers dabbing, highly excited. Cherub's colleagues cast their eyes up to heaven and mimed silent thanks; the moment of crisis was past.

(I was right all the same; the chairman called me later to grumble that these fellows weren't paid for reading newspapers and what were auditors coming to. I don't like to see them caught red-handed like that; maybe I should drop a hint about discretion.)

He had another rod in pickle for me, too. I had a shy but able young ledger clerk, a tall thin stammering lad who's been rather a butt in the office. Until he came back from holidays one Monday sporting a beard. A short, crisp, golden one, very dashing, hiding the weak mouth and chin. He looks like Walter Raleigh; and the typists gaze at him soulfully and even the customers turn to admire. In a few days, he developed a swagger and an ego and was twice the man. So when the chairman decreed a clean shave for him, I felt I had to defend him, in order to protect the lad's morale.

The chief held the Victorian idea that mere clerks should know their place and be inconspicuous; I disliked ostentation also, but felt that we shouldn't interfere in his private life, provided he wasn't objectionable. After protracted argument, each of us convinced the other and it was stalemate again. The upshot? The personnel director spotted his effect on the lady customers and made him Lingerie Department floor-walker at an increase of £120 per annum.

Two other clerks came in this morning with unkempt chins and bashful expressions; and the chairman had me on the carpet promptly for not stopping the rot sooner. As from today, I am going all Victorian: 'No more office beards'.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Abbott v. Philbin

House of Lords – June 21st, 1960

(Before Viscount SIMONDS, Lord REID, Lord RADCLIFFE, Lord KEITH OF AVONHOLM and Lord DENNING)

Income tax – Employment – Secretary of company – Scheme for purchase of shares in company – Payment for option – Application and payment for shares – Which year of assessment – Income Tax Act, 1952, Schedule E, paragraph 1.

The appellant was the secretary of a company which formed a scheme for enabling its directors and executives to obtain shares in the company. Under the scheme options to subscribe for shares, at the price ruling on the day of the grant of the option, were given to certain directors and executives. The options were exercisable within ten years, but they were not transferable, and they expired on the death of the option-holder or on the ending of his service with the company. On the exercise of the option the shares in question were to be allotted subject to the receipt of a form of application from the option-holder stating the number of shares he wished to take up, and the option form was to be accompanied by the payment in full of the price for these shares. The allotment was also to be subject to Governmental consent to the issue of the shares.

A letter conveying the terms of the scheme was received by the appellant on October 6th, 1954, and on the following day he sent in an application for an option in respect of 2,000 shares, together with a cheque for £20. On March 4th, 1955, Governmental consent to the issue of the shares was received, and on May 9th, 1955, the option-holders were informed to that effect. On May 6th, 1955, an option certificate was given to the appellant certifying that he had an option, in consideration of the payment of £20, to subscribe for 2,000 shares at 68s 6d a share. The appellant exercised his option on March 28th, 1956, in respect of 250 shares, and, thereafter, the certificate covered the balance of 750 shares. On March 28th, 1956, the price of the shares was 82s a share.

The appellant was assessed for 1955–56 under Schedule E in an amount which included a sum equal to the difference between the price of the 250 shares at 82s a share and their price at 68s 6d a share.

It was contended on his behalf that the transaction of October 7th, 1954, vested in him a right of property in the shares forthwith, and that that right was an emolument of his employment assessable

in 1954–55, and not in 1955–56. It was contended on behalf of the respondent that when the shares were issued to the appellant, there arose or accrued to him a profit of £166 from his employment assessable for 1955–56. The Special Commissioners decided in favour of the respondent.

Held (Lord Keith of Avonholm and Lord Denning dissenting): the £166 was not assessable.

Barclays Bank (Shipside's Executor) v. C.I.R.

House of Lords – June 21st, 1960

(Before Viscount SIMONDS, Lord REID, Lord KEITH OF AVONHOLM and Lord DENNING)

Estate duty – Valuation – Shares in company – Trust shares – Deceased first-named trustee – Whether deceased had control of company – Finance Act, 1894, Section 7 (5) – Public Trustee Act, 1906, Section 4 – Finance Act, 1920, Section 53 – Finance Act, 1937, Section 19, Schedule IV, Paragraph II – Finance (No. 2) Act, 1939, Section 13 (9) – Finance Act, 1940, Section 55, 58, – Finance Act, 1952, Section 34.

The testator died in 1955 and left 1,100 shares in a private company, the issued capital of which was 8,350 shares. At the date of his death he was one of four trustees holding 3,650 shares in the company, and, therefore, if the trust shares were added to the 1,100 shares owned by the deceased himself, the total came to more than half the share capital of the company. The deceased had no beneficial interest in the trust. The 3,650 shares were registered in the company's register of members in the names of the four trustees, and the deceased's name appeared first. The company's articles of association provided that in the case of joint holders the vote of the senior who tendered a vote was to be accepted in the exclusion of the votes of the other joint holders; and that seniority was to be determined by the order in which the names stood in the register of members.

Estate duty was claimed on the 1,100 shares on the footing that they should be valued, pursuant to Section 55 of the Finance Act, 1940, according to the net value of the company's assets, in that the deceased had the voting control of the company at the date of his death. It was contended for the appellant that the first named trustee could not himself exercise the voting rights on the joint holding, as he had to act on behalf of all the joint holders.

Held (Lord Reid dissenting): the deceased had the voting control of the company at the date of his death, and Section 55 of the Finance Act, 1940, was applicable.

Finance and Commerce

Share Premiums

A USEFUL exercise in mental accounting is provided by the scrip issue announced by Lord Wilmot of Selmeaton, chairman of Edwards High Vacuum Ltd, in his statement with the company's 1959 accounts recently published. The plan is to lift £286,431 from share premium account to capital by distributing one Ordinary share of 4s for every two held.

The amount in share premium account arises from conversion of 6½ per cent loan stock to ordinary capital and the operation from its beginnings in the issue of the loan stock is worth following.

In July 1958 there was an issue of £450,000 6½ per cent convertible unsecured loan stock

1978-83 at a price of £99 per cent. Holders were given the right to convert all or any part of the stock into fully-paid Ordinary shares of 4s each on the following basis: in February 1960, at the rate of fourteen shares for £10 stock equivalent at the issue price of £99 per cent to an approximate price per share of 14s 1¾d; in February 1961, the exchange was thirteen shares for £10 stock giving a price of 15s 3d; and in February 1962, twelve shares for £10 giving a price of 16s 6d.

If in 1962 at least 90 per cent of the stock is converted, the company may convert the balance at the 1962 rate in which case stockholders would have the right to require payment at par.

EDWARDS HIGH VACUUM LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1959

£	1958	£		£	£																								
221,918			Group Trading Profit for the year after charging the following:	295,851																								
			<table><tr><td>750</td><td>Directors' Remuneration:—</td><td>750</td></tr><tr><td>21,253</td><td>Fees</td><td>21,564</td></tr><tr><td></td><td>Emoluments</td><td></td></tr><tr><td>22,003</td><td></td><td>22,314</td></tr><tr><td>35,335</td><td>Depreciation</td><td>36,359</td></tr><tr><td>7,594</td><td>Companies' Superannuation Contributions</td><td>8,818</td></tr><tr><td>1,350</td><td>Audit Fees</td><td>1,481</td></tr><tr><td>£66,282</td><td></td><td>£68,972</td></tr></table>	750	Directors' Remuneration:—	750	21,253	Fees	21,564		Emoluments		22,003		22,314	35,335	Depreciation	36,359	7,594	Companies' Superannuation Contributions	8,818	1,350	Audit Fees	1,481	£66,282		£68,972		
750	Directors' Remuneration:—	750																											
21,253	Fees	21,564																											
	Emoluments																												
22,003		22,314																											
35,335	Depreciation	36,359																											
7,594	Companies' Superannuation Contributions	8,818																											
1,350	Audit Fees	1,481																											
£66,282		£68,972																											
			Add: Dividend from Associated Company	553																									
			Short Term Deposit and other Interest	7,220																									
758		758			7,773																								
222,676			Deduct: Interest on 6½% Loan Stock		303,624																								
6,569					28,125																								
216,107			Deduct: Taxation based on Profit for the year:		275,499																								
			Income Tax	103,512																									
			Profits Tax	26,389																									
113,586		89,086			129,901																								
		24,500	Profit for the year after charging Taxation		145,598																								
102,521			Deduct: Profit attributable to Minority Interest		436																								
689	(Add Loss)				145,162																								
103,210			Profit for the year attributable to Edwards High Vacuum Limited		145,162																								
			Add: Provision made out of Profits of previous years no longer required in respect of Investment in Associated Company		6,181																								
7,325					151,343																								
110,535			Deduct: Profit retained by Subsidiaries		3,047																								
2,655	(Add Loss)				148,296																								
113,190			Profit dealt with in Accounts of Edwards High Vacuum Limited		39,281																								
35,122			Add: Balance of Profit from previous year		187,577																								
148,312																													
			Deduct: Dividends less Income Tax:																										
		5,606	6½% Paid on Preference Shares		5,972																								
			10,350 (4%) 6% Interim Paid on Ordinary Shares	16,537																									
			33,075 (12%) 14% Proposed Final on Ordinary Shares	38,588																									
43,425					55,125																								
49,031					61,097																								
60,000			Transferred to General Reserve		75,000																								
109,031					136,097																								
			Balance of Profit carried forward—																										
39,281			Edwards High Vacuum Limited		51,480																								
			Subsidiaries:																										
			Profit for the year		3,047																								
2,655	(Loss)		Deduct: Balance (Loss) from previous year		2,243																								
412	(Profit)				804																								
2,243	(Loss)																												
£37,038					£52,284																								

EDWARDS HIGH VACUUM LIMITED

BALANCE SHEET AS AT 31st DECEMBER 1959

31st December, 1958				31st December, 1959				31st December, 1958				31st December, 1959			
£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
SHARE CAPITAL								FIXED ASSETS							
Authorised and Issued—								Plant, Machinery, Furniture, Fittings and Motor Vehicles							
150,000 6½% Cumulative Preference Shares of £1 each fully paid ..								Adaptations to Leasehold Premises and Sports Ground							
2,250,000 Ordinary Shares of 4/- each fully paid ..								Loose Tools as valued by the Management							
600,000								137,300							
£200,000								26,521							
£200,000								163,821							
£200,000								£161,516							
£200,000								£325,337							
1,249								8,278							
1,249								172,099							
CAPITAL RESERVE								INTEREST IN SUBSIDIARIES							
Share Premium Account								Shares at Cost, less amount written off ..							
1,249								Current Accounts and proposed dividend							
1,249								25,347							
1,249								86,313							
REVENUE RESERVES								INVESTMENTS IN ASSOCIATED COMPANIES							
General Reserve ..								Shares at Cost ..							
Profit and Loss Account Balance ..								Less: Provision ..							
225,000								70,380							
264,281								6,181							
865,530								64,199							
INCOME TAX, 1960/61								CURRENT ASSETS							
Payable 1st January, 1961 ..								Stocks and Work in Progress at cost or under ..							
77,000								Less: Instalments on Contracts ..							
77,000								795,419							
77,000								10,247							
77,000								785,172							
450,000								388,524							
450,000								150,000							
6½% CONVERTIBLE UNSECURED LOAN STOCK 1978/83								Trade and other Debtors and Payments in Advance ..							
450,000								Short Term Deposits ..							
450,000								Balances at Bankers, including Deposit Account, and Cash in Hand ..							
450,000								73,213							
PROVISION								1,396,909							
Against unrealised profit on inter-company stocks ..								ISSUE EXPENSES							
9,050								6½% Convertible Unsecured Loan Stock 1978/83 ..							
9,050								17,286							
CURRENT LIABILITIES								WILMOT OF SELMESTON } Directors							
Trade and other Creditors and Accrued Charges								FREDK. D. EDWARDS							
Taxation, including Income Tax to 1959/60 ..								£1,866,454							
Proposed Final Ordinary Dividend less Income Tax ..								£1,774,631							
323,051								£1,724,631							
£1,774,631								£1,866,454							

NOTES: (4) Edwards Alto Vuoto ceased to be a subsidiary during the year and the investment therein (now a 50% interest) has therefore been transferred from Interest in Subsidiaries to Investments in Associated Companies. The corresponding figures for 1958 have been similarly adjusted.

(5) Issue Expenses comprise—
Underwriting Commission 6,750
Discount 4,500
Other Expenses 6,036
£17,286

Converted

As events have turned out, holders of 97½ per cent of the loan stock have exercised their right of conversion on the first opportunity.

In the balance sheet at end-1959, the share premium account stands at £1,249 but a note explains that in February 1960, £438,793 loan stock was converted into Ordinary shares so increasing the Ordinary capital to £572,862 (2,864,310 shares of 4s) and giving rise to an addition to the share premium account of £315,931.

The issue of the loan stock in 1958 gave rise to issue expenses amounting to £17,286 – underwriting commission £6,750, discount £4,500 and other expenses £6,036. The amount was retained in the 1958 balance sheet and appears again at the end of 1959.

Issues of loan capital carrying conversion rights into Ordinary are sufficiently rare for the entries involved to make an interesting book-keeping exercise which readers – especially students – may care to try instead of their favourite crossword problem.

Reserves

ON the question as to whether life assurance offices should disclose reserves, a memorandum has been submitted by The Institute of Actuaries to the Jenkins Committee on Company Law.

The principal point made is that life offices are fundamentally different from other concerns and while, therefore, they require special legislation of their own, they are entitled to exemption where it is inappropriate.

The actuaries maintain that the market value of assets is a partial item of information that tends to mislead and points out, as an example, that, other things being equal, market values are high at times when interest rates are low and most expanding offices are thereby weaker.

They do admit, on the other hand, however, that a case for examination exists as to whether there is a reasonable balance between the information supplied about liabilities and assets in the present Board of Trade returns.

CITY NOTES

INTERNATIONAL political conditions have now superseded home economic uncertainties as the principal influence on the stock-markets. Political uncertainty, or in fact doubt of any kind, is the quickest damper of investment spirit and the turn of events in the Congo and also the new 'spy-plane scare' have combined to put the markets very much on their guard.

Even without international political fears the equity markets would probably have been easier. By the end of last week they had made good the losses which immediately followed the latest Bank rate and special deposit moves, and were clearly finding it difficult to make much further headway in the face both of evidence that the credit squeeze is working and of persistent claims that export markets are in danger.

At the same time there is a growing opinion that while pressure on the banks through a further special deposits call was a timely move, the increase in Bank rate to 6 per cent was not considered to be so well merited.

It is certainly difficult to reconcile the fresh rise in the rate with Treasury statistics so far available in the realm of gold reserves and balance of payments figures. Until uncertainties on this score – and also on political account – are resolved, the stock-market prospect can hardly be encouraging – particularly since new capital calls are now becoming distinctly heavy.

There may be no strong downturn in prices but at the same time a short-term slide in values would appear to be the probable course for the time being.

RATES AND PRICES

Closing prices, Wednesday, July 13th, 1960

Tax Reserve Certificates: interest rate (29.6.60) 3½%

Bank Rate			
Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills			
May 6	£4 13s 4.70d%	June 10	£4 12s 1.79d%
May 13	£4 11s 1.56d%	June 17	£4 13s 7.34d%
May 20	£4 11s 1.69d%	June 24	£5 13s 7.40d%
May 27	£4 11s 1.53d%	July 1	£5 13s 6.14d%
June 3	£4 11s 1.39d%	July 8	£5 13s 3.06d%

Money Rates			
Day to day	4-5½%	Bank Bills	
7 days	5-5½%	2 months	5½-5¾%
Fine Trade Bills		3 months	5½-5¾%
3 months	6½-7%	4 months	5½-5¾%
4 months	6½-7%	6 months	5½-5¾%
6 months	6½-7½%		

Foreign Exchanges			
New York	2.80 11-¾	Frankfurt	11.70 8-11
Montreal	2.75 8-¾	Milan	1742-¼
Amsterdam	10.58 8-¾	Oslo	20.03-¼
Brussels	139.88 8-80½	Paris	13.75 1-½
Copenhagen	19.35 8-8	Zürich	12.10 1-11

Gild-edged			
Consols 2½%	44½	Funding 4% 60-90	87 7/8
Consols 4%	66½xd	Savings 2½% 64-67	82½
War Loan 3½%	60	Savings 3% 55-65	87½xd
Conversion 3½%	59 11/8	Savings 3% 60-70	79 11/8
Conversion 3½% 1969	84½	Savings 3% 65-75	70 11/8xd
Exchequer 5½% 1966	99½	Treasury 2½%	43½
Funding 3% 66-68	81 7/8	Treasury 3½% 77-80	71 11/8
Funding 3% 59-69	81 11/8	Treasury 3½% 79-81	70½xd
Funding 3½% 99-04	64xd	Victory 4%	92½

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Practitioners and the Revenue

SIR, — A meeting of accountants of a north-western provincial town took place some little time ago at which sixteen of the seventeen practising firms in that town were represented by principals. The matter which was mainly discussed at that meeting was the attitude of H.M. Inspectors of Taxes generally, with particular reference to the pressure being brought to bear upon accountants regarding appeal cases and the type of correspondence being presently pursued by the Revenue officials.

It was generally agreed that the following were the main causes of contention between the accountant on the one side and the Revenue on the other side:

- (a) The Revenue seem to ignore the certificate affixed to the accounts.
- (b) At meetings of Commissioners all assessments for 1959–60 are taken to the appeal stage at the same time, despite the fact that some accounts may be for a year ended on April 6th, 1958, and other accounts may be for a year ended on April 5th, 1959.
- (c) In many cases the Commissioners of Inland Revenue under pressure from the local Inspectors tend to confirm the assessments if the accounts are not produced to the Inspectors within one month from the date of the meeting. This, it was generally felt, might well cause errors and mistakes to be made in accounts which, if they were not prepared under great pressure, would otherwise be more accurate.
- (d) Admitted that on many occasions the delay in rendering the accounts is caused in the accountant's office, probably through overpressure of work, but no sympathy is extended by the Commissioners to the taxpayer under these circumstances, which means that sometimes the innocent suffer with the guilty.
- (e) A very large number of questions are being asked by the Revenue which, in the opinion of the accountants present at the meeting, are probably unnecessary and the very heavy volume of extra work caused by these questions necessarily delays the accounts with the result that a vicious circle has been commenced merely by the fact of rendering accounts to the Revenue in the first place. It was felt by the meeting generally that the notice given to attend Commissioners' meetings was nothing like sufficient to enable them to prepare accounts where necessary in order not to waste several hours waiting for the Commissioners to attend upon them.

The types of questions to which exception has been raised are as follows:

- (1) Where, for example, a limited company has been audited by ourselves and a perfectly clear and clean certificate has been rendered in accordance with the Companies Act, the following is the type of question which is very often met with from the Inspector of Taxes.
 - (i) Are full and complete records maintained by the company? If not, in what ways were they deficient?
 - (ii) What was the scope of your audit?
 - (iii) Are the debtors shown on the balance sheet at their gross face value without making any deductions whatsoever? What estimated or balancing figures have been used in the preparation of the accounts?
 - (iv) What was the basis of valuation of stock on hand and who is responsible for listing the stock? Have the stock sheets been inspected by you?
 - (v) Was a cash-book in operation and was it balanced at intervals?

We have mentioned above in item (a) that the Revenue do not seem to read or to place any reliance on the certificate. If in fact the Inspector had read the certificate in such a case he would not have issued as a matter of course the type of question which we detail above.

- (2) In the case of quite small builders, the Revenue ask for a list of sub-contractors or amounts of, say, £50 or over.
- (3) The question of goods for own use arising out of the case of *Sharkey v. Wernher* is carried on, we feel, to an absurd degree. For example, in the case of a small greengrocer who probably could not sell any surplus stock at the end of the day, the question is raised as to goods for own use and in our opinion if the Revenue were to be a little more commercially minded they would probably realize that anything used by the greengrocer would be wasted if it had not been so used. The same point, we feel, arises in the case of use of a car for a commercial traveller who may be travelling up to 1,000 miles per week on business and really does not feel like using his car for pleasure purposes in the evening. The time expended by principals of firms, who in many cases are the only persons capable of dealing with the points, in dealing with this and similar problems must, taken in total, be a very considerable amount.
- (4) Some questions which are asked by Inspectors of Taxes are absurd, but nevertheless the accountant must take time to answer them. As an example of this, one of the practitioners in the town pointed out that an Inspector had asked him if the books kept by a private limited company were in conformity with the Companies Act. The only reply that could be made by the accountant was that if the Inspector would be so kind as to advise him in which section of the Act the books were specifically dealt with, he would be pleased to deal with the question. As soon as this reply had been made the matter was

dropped, but none the less the accountant had to waste time in dealing with it.

The consensus of opinion of the accountants present at the meeting was that most of the professional bodies and periodicals tend to deal with very large issues involving large public companies and matters of similar moment. The average small practitioner in the small provincial town never has the pleasure of dealing with such matters, but finds that his general day-to-day practice is of a very much more humdrum nature. For the small practising accountant, the matters which we have raised above are of far greater moment than the 'golden handshake' which takes a disproportionate amount of space in the financial and professional journals. The constant stress of working even the smallest cases under extreme pressure from the Inland Revenue is of far greater importance to the average accountant in practice than the affairs of, for example, the mammoth undertakings and we wonder whether other professional accountants who read your paper have the same feelings as the meeting which was held in a small provincial town. If so, we would be very interested to read what your correspondence columns might bring forth as a result of this letter, in order that some united action might be taken to ease the lot of the discontented practitioners who sign this letter.

Yours faithfully,
SEVENTEEN
PROVINCIAL ACCOUNTANTS.

References for Professional Staff

SIR, - In these enlightened days of staff welfare, I wish to draw attention to what I consider to be a very serious handicap to employees leaving the profession or one professional employer for another.

It is not the general practice in this country for professional firms to hand an employee a copy of the reference they *intend* to submit to other interested employers. The law does not require past employers (of any type) to give references, but if they are given they are answerable for them to future employers and past employees. So the employee has no legal right to one.

Now if the employee is not provided with a copy (so marked), how can he ever give expression to any legal rights he has if it becomes necessary when a reference *is* given? Partners - like all mortals - die, and a young man may find himself in a difficult position - or anyone who has a long-term job behind him in a responsible position where this situation arises. Commercial firms usually ask for references at interviews and an unqualified man with commercial references to produce has a distinct moral advantage. True, the new employer may give the existing employer a telephone inquiry (very unsatisfactory to the applicant) or make an offer 'subject to approved references' which often arrive after a position is taken (again unsatisfactory). Not all interested

employers respect the applicant's existing position and he may suffer if such inquiries are frequent. Furthermore, short-list or successful applicants never know whether the past employer has or has not given a reference.

Suppose now the employer has made just criticism of the employee on one or two personal points. The employee never gets the chance of mending his faults unless a perspicacious friend happens to notice them. He is in effect tagged for years at knock-down market value wondering which public advertisement meets his unknown deficiency(ies).

It is even possible that matters not in issue at the time of leaving are introduced into the private reference later. The employee may be condemned unheard, or downed with feint praise, or become the victim of ambiguity, particularly where different partners give the reference from time to time. Where reasons for leaving are due to technical differences of opinion with influential clients, the employee has only his own word to offer to a prospective employer or try to cover up.

Take again the description of the employee's status. He may call himself, say, a managing clerk - the reference shows 'clerk'. He may style himself (correctly) taxation accountant - the reference states 'tax assistant'. Typists also make mistakes which are serious to the applicant's status. In one case an accountant investigator (official title) was referred to as an assistant. It took six years to discover this and it was put right with profuse apology by the past employer. In another case a 'pertinacious accountant' was merely stated to be 'pertinacious' until a kindly employer suggested the ambiguity. It took twelve years before that came to light.

In my humble opinion, after thirty years in the profession, I feel, having regard to the nature of the work, that the 'reference' gives a professional employer too strong a hold over the life of his past employee and it can be virtually a weapon of humiliation where personalities have merely clashed.

It is time to stop this form of ghost control over free people's lives and their livelihood.

Yours faithfully,
A. ADAMSON, C.A.
London, SE24.

Auditing Points

SIR, - I shall be grateful if you will kindly publish the following three queries in the correspondence columns of your journal.

(1) A statutory auditor is being appointed to a company to carry out the monthly audit for the first time. The directors have recommended the name of Messrs X. for such monthly audit. The company's annual meeting will take place some months after the close of the year. Can the auditor commence monthly audit before his appointment and start working on the assurance of the directors' recommendation? And suppose he is not appointed, what about his remuneration? Can he get it on *quantum meruit* basis from the directors?

(2) A public company has been providing depreciation on fixed assets every year by debiting profit and loss account. This year, however, the directors have decided not to provide any depreciation on the fixed assets as they want to declare a dividend. What is the duty of the auditor? Must he report on the fact that the profits disclosed are subject to depreciation and any dividend declared without adequate provision being made for depreciation will be invalid? Is dividend declared out of profits without providing for depreciation, a dividend declared out of capital where there are no past reserves to fall back on?

(3) A company shows profit as per profit and loss account. If at the time of signing the balance sheet the auditor feels that some current assets like stocks have depreciated in value, must he insist on the provision being made for such a depreciation in stocks, although the method of valuing stock consistently adopted by the company is at cost only? Does this theory hold good where, say, investments of a textile manufacturing company have depreciated or the bank balance with one bank is unrealizable?

Yours faithfully,

ARCADIA (India).

Reviews

Business Mergers and Take-over Bids

Second edition, by RONALD W. MOON, B.LITT.(OXON.), F.C.A. (Gee & Co (Publishers) Ltd, London. 25s net.)

The City is never static and since the first edition of this valuable book was published early in 1959 there has been added to the list of celebrated take-over bids – successful and otherwise – the case of British Aluminium. In the same interval, the Stock Exchange has published a manual of ethics and procedure for bidders, the powers of the Capital Issues Committee have been drastically curtailed and the Government has set up the Jenkins Committee to examine the workings of the 1948 Companies Act.

Mr Moon has incorporated these happenings to the extent appropriate in the new edition of his book which remains perhaps the most comprehensive and penetrating survey of its kind on this highly complicated and controversial subject. A detailed index is a useful adjunct to this new edition.

Underhill's Law Relating to Trusts and Trustees

Eleventh edition, by C. MONTGOMERY WHITE, Q.C., and M. M. WELLS, Barrister-at-law. (Butterworth & Co (Publishers) Ltd, London. 95s net.)

Since the last cumulative supplement to the tenth edition the all-important Variation of Trusts Act, 1958, has been passed, with profound consequences not only in the field of trusts but also in the field of taxation, especially estate duty. Needless to say, the eleventh edition deals with this Act, as with all important trust topics, at length and with care. Reported cases on the application of the Act are duly noted but the tax implications are not always fully brought out because, of course, this is a trust textbook. However, it is worth observing that the Courts have used their powers under the Act to sanction rearrangements of trusts whose sole object is to reduce the burden of taxation. It follows that,

if for no other reason, anyone concerned with problems of that kind ought to have this book. Like tax law, the law of trusts is never still and some cherished conceptions can be overthrown at any time. Accordingly, it is most dangerous to use a textbook which is not up to date, excellent though it may be.

The editors modestly invite suggestions for improvement of the book. We suggest that the next edition (or supplement) might deal with the perpetuities aspect of *Re Pilkington's Will Trusts* ([1959] 2 All E.R. 623). Section 37 (1) (b) of the Trustee Act, 1925 is shown in the table of statutes as being dealt with at page 374, but it is in fact dealt with at pages 470 and 474. These apparently carping criticisms emphasize, we hope, the general excellence of the book.

Gentlemen of the Law

by MICHAEL BIRKS. (Stevens & Sons Ltd, London. 25s net.)

This scholarly book is a delight for two main reasons. One is that the subject itself – the rise of the legal profession – is of rich social historical interest and the other is that the author, who has been Principal Clerk to the Registrars of the Chancery Division of the High Court since 1953, has handled the immense mass of material at his disposal with truly judicial skill, digressing now and then with an incident or anecdote to illustrate his theme but never losing track of the direction of his intricate narrative.

Beginning with the 'common attorney', he goes on to describe the significance of the scrivener in the uncultured and even illiterate early Middle Ages and the emergence of the solicitor, first as a name and then as an influence, during the great transitional period when the Court of Chancery became the predominant power in the judiciary. Other landmarks in the history of the profession dealt with at length are the passing of an Act in 1729 'for the better regulation of attorneys and solicitors' and the foundation of various associations of practising members culminating in the present Law Society whose charter dates from 1831. The book ends with a penetrating chapter on the profession in the twentieth century and Mr Birks makes some suggestions about the future of the Bar and how barristers and solicitors could work in closer co-operation.

The 1959 Income Tax Legislation in the Federation of Rhodesia and Nyasaland

by A. S. 'SILKE, M.COM., PH.D. (Cape Town), C.A. (SOUTH AFRICA). (Juta & Co Ltd, Cape Town. 16s 6d net.)

A curious anomaly in Federation tax law which allowed a taxpayer with a wife under 21 to claim both married person's rebate and dependant's rebate in respect of her has now been removed. A system of rebates of tax has been introduced for supertax and one result of the new system is that a married couple with a supertax income of not more than £4,000 do not pay supertax at all. There has been a further tightening up of the anti-dividend stripping legislation, designed to prevent the abuse of grossing-up provisions. Besides setting out the legislation, Mr Silke expounds it and has included a very elaborate example on dividend-stripping which should be very useful to anyone who has to make his way through this maze.

The Receiver and Manager in Possession

Fourth edition, by ANDREW BINNIE, F.C.A., C.A., and BRIAN MANNING, C.B.E., D.L., J.P., F.C.A. (Gee & Co (Publishers) Ltd, London. 21s net.)

As Mr Manning very truly says in his introduction, few of the duties undertaken by an accountant are more onerous and varied, or entail greater personal responsibility, than those of a receiver and manager. This guide, first published in 1909, has been brought up to date to include the provisions of the 1948 Companies Act and, in its revised form, should enter upon a further lease of useful life.

The Law of Agency

by G. H. L. FRIDMAN, M.A., B.C.L., LL.M., Barrister-at-law, Lecturer in Law in the University of Sheffield. (Butterworth & Co (Publishers) Ltd, London. £1 15s net.)

There are several legal textbooks on the law of agency but there is room for this latest work. It is not an exhaustive legal practitioners' treatise, like *Bowstead*, nor is it so full on the theoretical side as is *Powell*. The author sets out and illustrates, in as straightforward and simple a manner as possible, the law relating to the different aspects of the agency relationship, so as to give students a complete picture of the nature, functions and obligations of agency and thereby enable them to understand how the relationship of principal and agent supplements and extends the scope of other legal relationships arising from contracts, ownership of property, and so on.

The result is a book which will be found of practical value to others than students. For example, anyone who has had to consider the vexed problem of estate agents' commission in the light of the many recent decisions on the subject will find Mr Fridman's

account illuminating. The chapter on ratification is a successful and concise account of a subject of great commercial importance which sometimes puzzles non-lawyers. The author's exposition of 'the four features of ratification which are important' is excellent.

SHORTER NOTICES

PUBLIC FINANCE IN THEORY AND PRACTICE, by A. R. Prest, M.A., PH.D. Weidenfeld & Nicolson, London. 45s net. According to the publisher of this book, Dr Prest 'has written a comprehensive study of the whole subject while the treatment is sufficiently detailed and scholarly to make this book essential reading for serious students of economics'. This is a large claim and it emphasizes the basic weakness of this work which is that it tries to cover too much. Why, for example, include the appendices on American and Canadian public finances? The treatment is rather too varied; the general reader will not be interested in formal geometric analysis, while the economist will find quite a lot of elementary material rather uninteresting. Nevertheless, selective reading will repay the time spent by any student. The real weakness, however, is the price. There are at least two good British texts on this subject each costing barely a quarter of the price of this book.

A. & P. A STUDY IN PRICE-COST BEHAVIOUR AND PUBLIC POLICY, by Professor M. A. Adelman. Harvard University Press; Oxford University Press, London. 80s net. This work is based on the case history of the Great Atlantic and Pacific Tea Company which in 1940 was charged by the Federal Authorities under the anti-trust laws for exploiting its monopoly powers. Professor Adelman then analyses the economic background to the evidence and shows how dangerous anti-trust legislation can be, when it is not based on carefully considered and defined economic criteria. This is a major piece of research and must have taken many years to prepare. For all lawyers and economists interested in the practical problems of anti-monopoly legislation, this book is essential reading.

RECENT PUBLICATIONS

FINANCIAL ADMINISTRATION IN LOCAL GOVERNMENT, by A. H. Marshall, C.B.E. 392 pp. 9 x 6. 32s net. Published for the Royal Institute of Public Administration by George Allen & Unwin Ltd, London.

MONEY AND INCOME, An Outline of Monetary Economics, by A. C. L. Day and S. T. Beza, A.B., A.M., PH.D. xv+634 pp. 9 x 6. 60s net. (U.K. only). Oxford University Press, London.

INCREASING PROFITS IN THE SMALLER BUSINESS, A Guide to Management Control. Financial Management Series No. 3. viii+140 pp. 9 x 6. Card covers. 22s 6d plus 9d postage (members of the Institute 18s plus 9d postage). British Institute of Management, London.

THE WAGE-PRICE ISSUE, A Theoretical Analysis, by Dr William G. Bowen. xv+447 pp. 9 x 6. 68s net. (U.K. only). Princeton University Press; Oxford University Press, London.

LAW AND ACCOUNTS OF EXECUTORS, ADMINISTRATORS AND TRUSTEES, fourteenth edition, by B. G. Vickery, F.C.A. xii+436 pp. 9 x 6. 27s 6d. The Donnington Press, St Albans, Herts; Cassell & Co Ltd, London.

PRINCIPLES OF AUDIT SURVEILLANCE, by Harvey Cardwell, C.P.A. x+465 pp. 9½ x 6½. 67s 6d. D. Van Nostrand Co Ltd, 358 Kensington High Street, London, W14.

TAX CASES, reported under the direction of the Board of Inland Revenue, 1960. Vol. 38. Part 5. Pages 307-386. 10 x 6. Paper covers. 3s 6d net. H.M.S.O., London.

National Computer Conference

Nearly four hundred delegates from the United Kingdom, Europe and North America attended the second annual conference of the British Computer Society held at Harrogate from July 4th to 7th.

Besides providing a stimulating experience for all who participated, the conference enabled a valuable interchange of knowledge to take place between the countries concerned. If any criticism can be made it is that the conference was far too short. It may be hoped that at future conferences there may be more separate meetings to cater for the differing needs of scientific and business users of computers.

During the course of the conference an exhibition was organized by the leading manufacturers in the computer field, where there were models of the latest machines as well as items of actual equipment ranging from small circuits to a complete computer.

New International Body Formed

At the first session on the Monday evening, the President of the Society, Dr M. V. Wilkes, F.R.S., announced the formation of the International Federation of Information Processing Societies of which the British Computer Society has been accepted as the body representing the United Kingdom. At present the Federation comprises fifteen national computing associations. The new body has been formed to take over the work started by U.N.E.S.C.O. in 1959.

The Federation, which was formed by a committee appointed at the first International Computing Conference, hopes to organize a second conference, possibly at Munich, during September 1962. It is expected that delegates from all U.N.O. member countries will attend.

During his opening address, Dr Wilkes also referred to the work of the Society's two research committees into automatic programming. He spoke of the mental barrier against the acceptance of automatic programming which was gradually being overcome in the scientific field. He felt that when this technique was also accepted by the business user the results would be both revolutionary and of far-reaching impact. The President also dwelt on the problem of communications and data transmission, which at present was hindering the progress of science and commerce. The need for a further research committee to look into this problem was stressed.

Progress Towards a Common Language for Computers

At the second session of the conference, devoted to automatic coding techniques, Mr C. Strachey, of the National Research Development Corporation, spoke at length on the progress which was being made towards a common language for computers. He showed how the use of problem-oriented languages enabled the programmer to use greater freedom in his choice of names. Why these languages were more convenient to use was explained, and also how internal addressing could be arranged by the computer. The difficulty of developing a programme compiler for use on a computer with a multi-level store was also dwelt on. It was stressed, however, that at last the computer was becoming the servant of industry rather than the master.

Mr R. A. Brooker, of Manchester University, described at length the work which he and Dr D. Morris were carrying out in the development of a 'do it yourself' autocode. This system, suitable mainly for scientific purposes, used basic expressions and procedures which the computer could analyse and translate into a language to suit its own particular characteristics. The system utilises two forms of input; the first being a declarative language which describes the form and method of translating the second imperative language. The imperative language is in effect an autocode developed by the user and oriented towards his particular problem. A standard set of declaratives will probably be produced, which each user can then extend to suit his own needs. By such means a computer would be able to develop a programme to write a further programme; thus programmes of any order of complexity may be quickly and rapidly evolved.

Mr R. M. Paine (International Computers and Tabulators) spoke on the difficulties of producing business autocodes. He emphasized the problem of defining, in ordinary English, the procedures which the computer was expected to operate due to the necessity for rigidly disciplined syntax and grammar when applying problems to a computer. He stated that the main cost of installing a business computer was due to the lengthy and costly organization and methods study of the problem which was required before any form of programming, either automatic or mental, could be initiated.

Computers in Market Research and Statistical Analysis

The techniques developed for utilizing computers for the examination of questionnaires and the analysis of answers, formed the subject of the third session, held on Tuesday morning. Computers, it was shown, could be easily and quickly equipped for a particular survey, thus placing market research within reach of even small users.

Dr A. S. Douglas (C.E.I.R. (U.K.) Ltd) and Mr A. J. Mitchell (Leeds University) described 'Autostat,' a language developed for statistical data processing. It was claimed that the language was both easy to use and to programme for a large-scale data-processing system, and with certain limitations, had been successfully employed on a Pegasus computer.

Dr Yates (Rothamsted Research Station) described the automatic programming techniques used to speed up the agricultural surveys made at Rothamsted into such things as the use of fertilizer and the incidence of milk fever in cows. The use of an Elliott computer has enabled far larger and more involved surveys to be undertaken than was possible with more conventional equipment.

The market research carried out by J. Lyons & Co was explained by Mr J. A. Gosden (Leo Computers). The problem of environment and the development of a questionnaire was covered, coupled with the method of using binary answers to establish a pattern matrix. The results of a survey showing how delivery vans were re-routed to reduce distribution costs of ice cream, and to increase the utilization of refrigerators, was used

as an example of the effectiveness of the methods employed.

Role of Small Computers in Science and Industry

Messrs L. R. Crawley and R. J. Ord-Smith (Stantic) described an integrated system of clerical procedures adopted by a medium-sized firm, involving the use of one basic computer run enabling sales invoicing, stock control and ledger accounting to be completed, in addition to many other necessary functions.

The use of an ICT '1201' computer for production control in a small batch production factory was described by Mr D. J. L. Hughes (I.C.I.). Besides dealing with the main routines used for production control, including the breakdown of end-product demands into parts and materials (embracing shop-loading and stock and order control) he discussed both the difficulties in introducing the scheme and the benefits which were forthcoming.

Messrs M. White, D. A. Peel (British Aluminium Co) and P. F. King (Elliott Bros.) described how the British Aluminium Co had utilized an Elliott computer to simulate the operations of their hydro-electric system. In some forty-five minutes, the computer can reproduce the system's operations over a period of fourteen years. This has enabled the engineers to study ways of increasing the operating efficiency of the system.

The use of an IBM Ramac by C. & J. Clarks for stock control was described by Mr T. R. M. Longman (IBM (U.K.) Ltd) who explained how some of the stock control problems of the shoe industry had been overcome, together with the applications currently being carried out.

State of the Art Abroad

A recent visit to Russia, when he exhibited a small British computer was described by Mr S. L. H. Clarke, who said that by the end of the exhibition, more than sixty institutes and factories had applied for permission to purchase the British machine. Russian scientists admit that they are at least four years behind Britain and the U.S.A. in the development of electronic machines. The main Russian computers were large and old-fashioned, but this was thought to be due to development work on computers being restricted in favour of work in other fields. Some of the Russian machines were described, together with electro-mechanical and pneumatic computing devices used for factory control.

Organization of a Computing Centre

The growth and work of service bureaux were described by three speakers. Dr Buckingham (London University) spoke on the great variety of work which was being processed on the London University's Mercury computer. He said that the unit was turning out about 200 programmers a year.

The work which had been done at the Ferranti Centre for 170 organizations was described by Mr A. Bagshaw; the centre was often catering for fifty or more clients' requirements, and had trained about 1,000 programmers.

The use of common language media for data transmission was touched on by Mr A. H. Beaven of

N.C.R. Electronics, who described how three businesses were producing punched-paper tapes as a by-product of their normal accounting operations, and forwarding the tapes to the computer centre for subsequent analysis and statistical operations. The needs of shipping, insurance and trading and expense analysis were described, as was the necessity for the computer to detect and act correctly when errors were traced in the input media.

On Wednesday afternoon the delegates separated into four groups; one group visited the computer installation at Reckitts Ltd at Hull, and another that of the Blackburn Aircraft Co at Brough. Reckitts Ltd have an Elliott '405', whilst Blackburns have a Pegasus and an analogue computer built to their own design, both machines being engaged on scientific calculations.

The remaining delegates attended either a session on simulation studies in process control and planning or a symposium on numerical analysis.

A large contingent of delegates joined the Hull and District Branch of the British Computer Society on the evening of Wednesday, July 6th, to hear Mr A. W. Howitt, M.A., F.C.A., F.C.W.A., speak on 'Auditing problems - advising on the use of computers' (see next page).

Large-scale Processing in Government Offices

One of the most interesting sessions of the conference was that on Thursday morning devoted to installations in Government departments. Mr D. Polley described how an EMI '2400' computer was to be used by the Ministry of Pensions and National Insurance to cope with the graduated pension scheme. One problem to be faced is that the computer requires to be installed and the processing to commence immediately and accurately on this work. This will be the first installation where it is not possible to commence by running in parallel with an existing operation. Details of the proposed system were given: it is estimated that some 34 million punched cards will be used to set up the computer, that its backing memory will require 600 reels of magnetic tape for one year's records, and that some forty-five miles of paper will be printed out each year to record the year's transactions. The paper will be microfilmed for filing as it is produced.

The problems of the Royal Army Pay Corps' installation were described by Lieut.-Col. L. D. Slater. Not least is the necessity to expand rapidly if an emergency arises. Two computers are to be used to record the Army's pay and entitlements. At present one hundred people are employed in preparing for the introduction of the two IBM machines next October.

Symposium on Accounting Applications

Some of the many problems which can arise when an attempt is made to introduce a computer to the control of wholesale warehouses and retail branches were described by Mr J. W. Mitchell, A.C.A., at the concluding session on accounting applications. Mr Mitchell showed how straightforward processes can introduce unexpected complications; he pointed out some of the problems which exist and ways of overcoming them.

The use of an ICT '1301' computer for invoicing and stock control was the subject of a paper by Mr L. W. Robinson. The layout of the various files and the updating procedures were discussed. Mr F. Hindle, of Martins Bank, described the successful use

of a computer for a banking operation. He stated that although well satisfied with the work on the computer they had decided before mechanizing further to completely re-programme the existing installation as it was felt that further economies could be achieved by a slightly modified approach.

The first year's use of a computer by Albert E. Reed & Co was described by Mr C. B. Warrington.

The application to maintenance stores control and to the payroll were discussed, together with various non-accounting jobs, in such fields as market research and operations research.

Civic Reception

The Mayor of Harrogate entertained the delegates at a civic reception and concert on Tuesday evening.

COMPUTERS AND THE AUDITOR

A meeting of the Hull and District Branch of the British Computer Society on Wednesday, July 6th, was addressed by Mr A. W. Howitt, M.A., F.C.A., F.C.W.A., on 'Auditing problems - advising on the use of computers'. By invitation the meeting was open to delegates attending the British Computer Society Conference and members of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants.

Mr Howitt spoke on the method of approach to be adopted by the auditor, though owing to the few business installations yet existing, it was hard to know how to proceed. The U.S.A. were not much further advanced than the United Kingdom in the business use of computers. So far, out of 300 computers and calculators installed in the United Kingdom, only one-hundred were engaged on commercial work; of these, sixty were electronic calculators which should not cause any concern to auditors, although the other forty might, depending on their applications. As he rightly said: 'The amount of auditing experience is insignificant in this country.'

When auditing large companies, the auditor has constantly to bear in mind both Section 162 of the Companies Act and his common-law liability. However, provided he complies with what is currently the best commercial practice he is unlikely to transgress his legal responsibilities. His job is to check on errors and frauds, and to ensure that no deception is carried out on shareholders or third parties.

It is the duty of a company's executives to devise a sound system, and it is the duty of the auditors to test that system and its effectiveness. Computers should assist the auditors by enabling a reduction in the amount of detailed checking to take place.

The prime requirements to be installed and checked are:

- (1) Internal check: the allocation of duties.
- (2) Control figures: to be retained by the supervisor or manager.

The auditor should then, said Mr Howitt, be able to 'concentrate more on the system and internal check and less on detailed ticking'.

A good system design and firm discipline are essential especially as, with a computer, it is more difficult to find out what the system is and to ascertain how it operates.

The management consultancy departments of accountancy firms can give assistance to the auditors in their manner of approach. 'Operating and programming', commented Mr Howitt, 'are highly-specialized clerical procedures, and no auditor is carrying out a highly-specialized clerical procedure of this nature'. Auditors must, however, study more deeply in the fields of systems, methods, costing, machinery, and computers, and be able to discuss them

intelligently with the appropriate staff during the audit.

The auditor should be associated with the installation from its earliest days, and should give his views on control checks and totals, logging, printing, time for keeping tapes, the staff to be employed and their duties, security, how input data is to be checked, error recording, run length, etc. He should also advise on such matters as magnetic tape reel labelling and fire precautions.

Auditors must, however, remember that the additional checks which they may consider advisable can affect the economies of the whole computer operation. The problem of check digits and the use of hash totals must also receive consideration. It was suggested that initially as many checks as possible should be built into the system, but that when it is operating satisfactorily and more work is applied to the system, a number of the checks can gradually be eliminated.


The feasibility survey prior to ordering does not come into the auditor's function, though his advice might be welcome. However, the auditor would probably wish to assist in the parallel running and programme debugging. By the time parallel running commences, the auditor should have completed an audit control file for the computer showing documents, controls, input and checking procedures, flow-charts showing checking errors and exception procedures, details of tapes, films, etc., copies of output documents, and checking procedures and comments on controls.

Inevitably certain problems are overlooked which are only discovered during the parallel running period; frequently necessary sub-routines are omitted. At this stage detailed manual controls are needed. Reconciliation may be arduous, often small points and errors in existing systems are disclosed by the computer's operation. Only after the parallel running has been completed and all errors have been logged and settled can proper procedures be finally understood.

It must be remembered, stated Mr Howitt, that the 'cost of caution is small' compared with the overall costs. It pays not to rush to meet dates when installing. Surprise visits to the installation were not to be encouraged because:

- (1) The computer may be engaged on a non-audit operation during a surprise visit.
- (2) It assumes that the auditor has too great a knowledge of the computer.

In reply to questions, Mr Howitt said that an auditor is entitled to insist on certain checks being provided in the system, and can ask for certain facilities to be provided. Rigid control of the input data is necessary. The main problem is 'Where does the auditor stop?' He must take a certain amount on trust. It is in arriving at decisions on these points that he exercises his auditor's skill.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, July 6th, 1960, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr S. J. Pears, President, in the Chair; Mr P. F. Granger, Vice-President; Messrs J. Ainsworth, C.B.E., W. L. Barrows, T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., P. F. Carpenter, Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, C. Croxton-Smith, W. G. Densem, S. Dixon, W. W. Fea, J. Godfrey, G. G. G. Goult, L. C. Hawkins, J. S. Heaton, D. V. House, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs P. D. Irons, J. A. Jackson, H. O. Johnson, W. H. Lawson, C.B.E., H. L. Layton, R. B. Leech, M.B.E., E. N. Macdonald, D.F.C., R. McNeil, J. H. Mann, M.B.E., R. P. Matthews, W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E., C. U. Peat, M.C., F. E. Price, P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs K. G. Shuttleworth, D. Steele, C. M. Strachan, O.B.E., J. E. Talbot, A. D. Walker, A. H. Walton, V. Walton, E. F. G. Whinney, J. C. Montgomery Williams, R. P. Winter, C.B.E., M.C., E. K. Wright, Sir Richard Yeabsley, C.B.E.

Welcome to a New Member

The President welcomed Mr E. N. Macdonald, D.F.C., F.C.A., who was attending for the first time as a member of the Council.

Company Law Committee

The Council has requested the Company Law Committee to delete item (c) of paragraph 94 and the whole of paragraph 96 from the memorandum submitted by the Council after its meeting on June 1st. These paragraphs relate to the raising of capital by statutory water companies and the Council has now been informed that such companies are subject to the prospectus requirements of the Companies Act, 1948, by reason of a statutory instrument bringing into operation provisions of the Fourteenth Schedule of that Act.

CAESS and the National Insurance Act, 1959

The Council approved for publication a booklet relating to the Chartered Accountants Employees Superannuation Scheme (CAESS) entitled *Arrangements for those who wish to contract out under the National Insurance Act, 1959*. Copies of the booklet will be sent during July to all practising members in Great Britain and Ireland. Copies will also be available to other interested persons free of charge on application to the Institute or to the scheme secretaries. Postal applications should be accompanied by a gummed, addressed label.

Licenced Dealers (Conduct of Business) Rules

A memorandum has been submitted to the Board of Trade making certain suggestions for amendment of the draft of the Licenced Dealers (Conduct of Business) Rules, 1960.

Joint Committee for the Award of National Certificates in Business Studies

Mr P. F. Carpenter, F.C.A., was nominated to represent the Institute on the Joint Committee for the award of National Certificates in Business Studies.

Appointments to Committees

The Council made the following appointments to committees:

Mr E. N. Macdonald – Applications and Parliamentary and Law Committees.
Mr L. W. Robson – Investigation Committee.

Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Applications

Chairman, Mr R. P. Winter; Vice-Chairman, Mr R. McNeil.

Articled Clerks

Chairman, Mr E. F. G. Whinney; Vice-Chairman, Mr M. Wheatley Jones.

District Societies

Chairman, Mr A. D. Walker; Vice-Chairman, Mr C. Croxton-Smith.

Finance

Chairman, Mr P. V. Roberts; Vice-Chairman, Sir Harold Gillett.

General Purposes

Chairman, Mr W. L. Barrows; Vice-Chairman, Mr W. H. Lawson.

Investigation

Chairman, Mr D. V. House; Vice-Chairman, Mr P. F. Carpenter.

Library

Chairman, Mr D. A. Clarke; Vice-Chairman, Mr J. H. Bell.

Parliamentary and Law

Chairman, Mr H. A. Benson; Vice-Chairman, Mr C. M. Strachan.

Anderson Committee on Grants to Students

The Council decided to draw the attention of the district societies and students' societies to the report of the Anderson Committee in relation to grants by local authorities to part-time students.

Exemption from the Preliminary Examination

Three applications under bye-law 79 for exemption from the Preliminary examination were acceded to.

Exemption from the Intermediate Examination

Two applications under bye-law 85 (b) for exemption from the Intermediate examination were acceded to.

Reduction in Period of Service under Articles

Three applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

Registration of Articles

The Secretary reported the registration of 81 articles of clerkship during the last month, the total number since January 1st, 1960, being 1,024.

P. D. Leake Trust

It was reported to the Council that the application by the Institute to the High Court for an extension of investment powers under the P. D. Leake Trust has been approved. (See page 96—*Ed.*)

Admissions to Membership

The following were admitted to membership of the Institute:

Hill, Peter Withers; A.C.A., 1960; Mannamead Farm, P.O. Box 97, Sotik, Kenya.
 §Kaplan, Basil; A.S.A.A., 1960; 8 Avenue St Charles, Sea Point, Cape Town, South Africa.
 Steed, Anthony Jos; A.C.A., 1960; 14 Boileau Road, Ealing, London, W5.

Fellowship

The Council acceded to applications from eleven associates to become fellows under clause 6 of the supplemental Royal Charter.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Appleby, Henry, B.COM.; A.C.A., 1958; (*Greaves, Appleby & Leighton), 1 St Nicholas Buildings, Newcastle upon Tyne, 1.
 Bato, Michael Jacob; A.C.A., 1959; (M. J. Bato & Co), 1146/48 London Road, Norbury, London, SW16.
 Blanchard, John Cyril; A.C.A., 1957; (Hooker, Nankivell & Co), 15 Kingsteignton Road, Newton Abbot, and at Torquay.
 Cohen, Paul Anthony; A.C.A., 1959; (Paul, Harris & Co), 24 Sneath Avenue, Golders Green, London, NW11.
 Doleman, John Francis; A.C.A., 1959; (F. W. Clarke & Co), 154 Upper New Walk, Leicester, and at Lutterworth.
 Emmett, Clive; A.C.A., 1959; (R. W. Dyson & Emmett), 'Edgefield', Manchester Road, Nelson, Lancs.
 Gee, Malcolm John; A.C.A., 1960; 4 Whitehall Court, London, SW1.
 Gibson, Allan Lavender; F.C.A., 1960; A.C.A., 1936; (Lambert, Roper, Gibson & Horsfield), 34 Clare Road, Halifax.
 Goldstein, Brian; A.C.A., 1960; 39 Athelstan House, Marsh Hill, London, E9.

§ Means 'incorporated accountant member'.

Firms not marked † or * are composed wholly of members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

‡ Against the name of a firm indicates that the firm includes an incorporated accountant member of the Institute and is composed wholly of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Goodman, Ellis Martin; A.C.A., 1959; (Ellis Goodman & Co), 4 Blenheim Street, New Bond Street, London, W1.
 Gordon, Henry Kenneth; A.C.A., 1960; (Gordon & Co), 31 Chadworth House, Amwell Court, Green Lane, London, N4.
 Gordon, Ronald; A.C.A., 1957; 60 Mowbray Road, Edgware, Middlesex.
 Handley, William Ernest Hartop; A.C.A., 1951; (†Spain Brothers, McNab & Co), 14 St John's Road, Tunbridge Wells, Kent, and at Tonbridge.
 Hardacre, Kenneth; A.C.A., 1960; 12 Broadfield Street, Heywood, Lancs.
 Harris, Colin Michael; A.C.A., 1959; (Paul, Harris & Co), 24 Sneath Avenue, Golders Green, London, NW11.
 Horsfield, Tom; F.C.A., 1960; A.C.A., 1958; (S. 1948); (Lambert, Roper, Gibson & Horsfield), 34 Clare Road, Halifax.
 Jackson, Andrew Sunter; A.C.A., 1954; (*Strangways, Thomas & Co), 17 High Street, Olney, Bucks, and at Newport Pagnell; also at Bedford (*J. R. Wills & Co).
 Kelly, Owen; A.C.A., 1956; (Wilson, Turnbull & Co), 6/7 Queen Street, London, EC4.
 Knowles, Thomas Reginald; A.C.A., 1958; (S. 1953); (Highfield, Prichard & Mumby), 116 High Street, Bangor, and at Liverpool.
 Llewellyn, David Arthur; A.C.A., 1960; (Llewellyn & Co), Livingstone House, Broadway, London, SW1.
 Marvell, Barry; A.C.A., 1958; (S. 1956); (*Lacey, Radford & Co), 39 Abbeygate Street, Bury St Edmunds, and at Haverhill.
 Murphy, Brendan; A.C.A., 1958; (Martin & Stone), St James' House, 44 Brazenose Street, Manchester, 2.
 North, David James; A.C.A., 1958; (C. D. North & Co), 1 Brunswick Street, Batley, Yorkshire.
 Osborne, Robert Douglas; A.C.A., 1958; (S. 1956); (Maclean, Hunter & Jinks), 1 Queen Anne Terrace, Tavistock Road, Plymouth.
 Parkinson, Richard Turner; A.C.A., 1954; (Jones, Robathan, Thompson & Co), Mercantile Chambers, 13 James Street, Cardiff, and at Cardigan, Carmarthen, Chepstow, London and Newport.
 Roberts, Michael Elvey; F.C.A., 1960; A.C.A., 1956; (S. 1942); (Blackburns, Robson, Coates & Co), City Chambers, Infirmary Street, Leeds, 1, and at Bradford, London and Manchester.
 §Sarkari, Noshir Phiroz Dhanjibhoy; A.S.A.A., 1960; (†Sarkari & Co), 13 Wimpole Street, London, W1.
 Schofield, John Thomas; A.C.A., 1960; 136 Durham Road, Spennymoor, Co. Durham.
 Sears, Alan; A.C.A., 1959; 143 Carlton Avenue East, Wembley, Middlesex.
 Smith, Leon David; A.C.A., 1959; (*Jayson, Arnold & Powell), 32 Old Burlington Street, London, W1.
 Smith, Michael Percy; A.C.A., 1958; (S. 1955); (*George, Arthur & Co), Fiscal House, 36 Lattimore Road, St Albans, Herts.
 Smith, Roy Charles; A.C.A., 1960; (Basil Hallett & Co), Staple House, 51/52 Chancery Lane, London, WC2.
 Sugden, Peter Desmond, M.A., LL.B.; A.C.A., 1955; (Blackburns, Robson, Coates & Co), City Chambers, Infirmary Street, Leeds, 1, and at Bradford, London and Manchester.
 Sykes, Kenneth; A.C.A., 1960; 12 Waterloo Road, Romiley, near Stockport, Cheshire.
 Terns, James Sydney; F.C.A., 1956; A.C.A., 1939; (James S. Terns & Co), 16 Fitzharris Avenue, Bournemouth.
 Thomas, Gervase Alan, M.A.; A.C.A., 1957; (Anderson, Thomas, Frankel), 13 Park Place, St James's, London, SW1, and at Conway.
 §Tickner, George Edmund; (1958); A.S.A.A., 1951; 27 Chapel Road, Worthing.
 Wakeham, John; A.C.A., 1955; (Roffe, Swayne & Co), 50 Lincoln's Inn Fields, London, WC2, and at Godalming.
 Watch, Cecil; A.C.A., 1959; (Cecil Watch & Co), 21 Belhaven Road, Higher Crumpsall, Manchester, 8.

Admission to Membership under the Scheme of Integration

The Council acceded to applications from two members of the Society of Incorporated Accountants for admission to membership of the Institute pursuant to the scheme of integration referred to in clause 34 of the supplemental Royal Charter.

Readmission to Membership

Subject to payment of the amount required by the Council, one former member of the Institute was readmitted to membership under clause 23 of the supplemental Royal Charter. Two applications were refused.

Resignations

The Council accepted the resignations from membership of the Institute of:

George, David William, A.C.A., 23 Wharf Road, Stamford, Lincs.

Griffiths, Norman, F.C.A., 9 Harrod Drive, Birkdale, Southport.

Malpas, Douglas Wellard, B.A., F.C.A. (Malpas, Simmons & Co), Upper Hinton Chambers, Upper Hinton Road, Bournemouth.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr John Martin Brimicombe, F.C.A., London.

„ David James Bunker, A.C.A., Lydney.

„ Veningandla Pichaiiah Choudary, B.COM., F.C.A., Madras.

„ Harry Leighton Linford Greaves, F.C.A., Blackpool.

„ Wilfrid Alexander Johnson, O.B.E., B.A., F.C.A., Reading.

„ Hewson Graham King, F.C.A., Sevenoaks.

„ William Owen Pidgeon, F.C.A., Rickmansworth.

„ John Alfred Sanders, F.C.A., Dar-es-Salaam.

„ Frederic Sinclair Thompson, F.C.A., Newcastle upon Tyne.

„ Herbert Tinker, F.C.A., Leeds.

„ Sidney Whincup, M.B.E., F.C.A., Romford.

„ Thomas Hornby Williamson, F.C.A., Wirral.

Sir Alfred Wood, F.C.A., London.

Mr B. W. S. O'Connell, F.C.A.

Mr Brian W. S. O'Connell, F.C.A., President of the Rhodesia Society of Accountants, who is on a visit to this country, was received by the Council after the conclusion of its meeting. The President extended to him a hearty welcome, to which Mr O'Connell suitably replied.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on June 1st, 1960.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Stanley Thomas Lawrie, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter in that (a) he failed to reply or take action in response to four letters written to him by the honorary secretary of a club requesting the return of the minute books and account books of that club; (b) he failed to reply to four letters addressed to him by the Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Stanley Thomas Lawrie, F.C.A., had been proved under both headings and the Committee ordered that Stanley

Thomas Lawrie, F.C.A., of 55 Welbeck Street, London, W1, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a member of the Institute was, at a magistrates' Court in February 1960, convicted on three charges of larceny, in respect of which he was discharged absolutely, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved but, having regard to very exceptional circumstances, the Committee decided to take no action and that the name of the member should be omitted from the publication of the Finding and Decision.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Book-keeping and Accountancy for Solicitors; by P. Harrison and A. G. Hillman. 1960. (Butterworth, 47s 6d.)

Design of Documents . . . ; by L. Hogben and K. W. Cross. 1960. (Macdonald & Evans, 35s.)

Economics. (Canadian Institute of Chartered Accountants.) Toronto. 1959. (C.I. of C.A., \$5.50.)

Financial Reporting in Canada. (Canadian Institute of Chartered Accountants): third edition. Toronto. 1959. (C.I. of C.A., \$5.00.)

The First Fifty Years, 1909-1959; by A. W. Graham. Wellington. 1960. (New Zealand Society of Accountants, presented.)

Grants to Students: report . . . Cmnd. 1051. (Ministry of Education.) 1960. (H.M.S.O., 6s 6d.)

Handbook of Business Mathematics; by W. R. Minrath. New York. 1959. (Van Nostrand, 56s 6d.)

How to Take a Chance; by D. Huff. 1960. (Gollancz, 13s 6d.)

Income Taxes in the Commonwealth; (Board of Inland Revenue). Vol. 1 from 1958. Vol. 2 from 1960. (Loose-leaf.) (H.M.S.O., 75s and 84s.)

Law and Accounts of Executors, Administrators and Trustees; by B. G. Vickery, F.C.A.; fourteenth edition. 1960. (Donnington Press, 27s 6d.)

The Law of Hire-purchase; by D. Wild. 1960. (Butterworth, 45s.)
 Management Notebook; by F. de P. Hanika. Glasgow. 1960. (Glasgow Herald, 15s.)
 The Measurement of Share Values from the Investor's Point of View: a paper; by H. E. Wadsworth. 1960. (Manchester Statistical Society, 10s 6d.)
 Palmer and Bell's Accountants' Working Papers; by L. E. Palmer and W. H. Bell: third edition by R. S. Johns. New York. 1950. (Ronald Press, 68s.)
 Palmer's Company Precedents; by F. B. Palmer: seventeenth edition. Part I, 1956. (Stevens, 126s); Part II, winding-up. 1960. (Stevens, 147s); Part III, debentures, 1951-52. (Stevens, 126s).

Standard Costs for Manufacturing; by S. B. Henrici. third edition. New York. 1960. (McGraw-Hill, 66s.)
 The Trade Cycle; by R. C. O. Matthews. Cambridge. 1959. (C.U.P., 12s 6d.)
 A Treatise on the law and practice of Arbitrations and Awards. . . ; by J. P. H. Soper: ninth edition by D. M. Lawrance and J. M. Williams. 1959. (Estates Gazette, 42s.)
 The Valuation of Private Business and Professional Practice. (Canadian Institute of Chartered Accountants.) Toronto. 1959. (C.I. of C.A., \$2.00.)
 Williams on Executors and Administrators; by Sir E. V. Williams: fourteenth edition by G. W. Keeton and E. H. Scamell. 2 vols. 1960. (Stevens, 252s.)

P. D. LEAKE TRUST

Court Order extending Investment Powers

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION (GROUP A)

MR JUSTICE PENNYCUICK at Chambers

Tuesday the 17th day of May 1960

IN THE MATTER of
The Charity called THE P. D. LEAKE TRUST
and

IN THE MATTER of
the CHARITABLE TRUSTS ACTS 1853 to 1939
and

IN THE MATTER of the TRUSTEE ACT 1925

UPON THE APPLICATION by Originating Summons dated 22nd March 1960 of The Institute of Chartered Accountants in England and Wales a corporation incorporated by Royal Charter whose principal office is at Moorgate Place in the City of London and UPON HEARING Counsel for the Applicants and for the Respondent Her Majesty's Attorney-General and UPON READING Probate of the Will of Percy Dewe Leake granted on 25th January 1950 to the Public Trustee an affidavit of William Leonard Barrows filed 30th March 1960 and the exhibits therein referred to and an Order of the Minister of Education dated 28th May 1959 authorising the Applicants to make this application

AND the Respondent by his Counsel not objecting
 THE JUDGE DOTH ORDER by way of Scheme that the Applicants or other the trustees or trustee for the time being of the above-mentioned charity be at liberty to invest the funds from time to time subject to the trusts of the said charity in accordance with the provisions of the Scheme contained in the Schedule hereto in like manner as though such modes of investment had been authorised by the Will of Percy Dewe Leake deceased (whereby the said charity was established)

AND IT IS ORDERED that it be referred to the Taxing Master to tax: (1) the costs of and incidental to this application of the Applicants the Trustees of the said Charity and (2) on the common fund basis the costs of the Respondent of and incidental to the said application (including therein his costs of and incidental to the negotiations and preparation of the Scheme contained in the Schedule hereto)

AND IT IS ORDERED that the said costs be raised and retained or paid out of the Capital of the trust fund held by the Applicants upon the trusts of the said Charity.

THE SCHEDULE SCHEME

1. In this Scheme the following expressions shall where the context so admits have the following meanings respectively:

- (i) 'The Charity' shall mean the charity called 'the P. D. Leake Trust'
- (ii) 'The Trustees' shall mean The Institute of Chartered Accountants in England and Wales or other the trustee or trustees for the time being of the Charity
- (iii) 'The Trust Fund' shall mean and include all capital assets (other than assets representing unapplied income) for the time being held by the Trustees on trust for the Charity
- (iv) 'The date of the Order' shall mean the date of any Order or Scheme made by the Chancery Division of the High Court of Justice conferring power on the Trustees to invest the funds from time to time subject to the trusts of the Charity in accordance with the provisions of this Scheme
- (v) 'The operative date' shall mean the date when the Trustees make such division and appropriation of the assets for the time being comprised in the Trust Fund as is hereinafter provided for
- (vi) 'Trustee investments' shall mean and include any investments which on the 1st day of January 1960 were or (if such investments had then been in existence) would have been investments authorised by law for the investment of trust funds
- (vii) 'Overseas country' shall mean and include:
 - (a) the Dominion of Canada and any Province thereof
 - (b) the Commonwealth of Australia and any State thereof
 - (c) the Union of South Africa and any State thereof
 - (d) the United States of America and any State thereof.

2. As soon as practicable after the date of the Order the Trustees shall divide and appropriate the assets for the time being comprised in the Trust Fund into two separate funds (hereinafter respectively called 'the restricted fund' and 'the extended fund' which expressions respectively shall where the context so admits include all assets from time to time representing such respective funds) in such manner as the trustees shall think fit but so that:

- (a) all the trustee investments comprised in the Trust Fund at the operative date shall be appropriated to the restricted fund and
- (b) the assets (including trustee investments) appropriated to the restricted fund shall be equal in value to at least one-third of the value of the whole of the Trust Fund at the operative date.

3. For the purposes of making such division and appropriation as aforesaid:

- (a) any assets comprised in the Trust Fund at the operative date which are shown in the last accounts of the Charity as quoted on any Stock Exchange shall be taken to have a value on the operative date equal to their middle market price or the sterling equivalent thereof (as certified by a member of the London Stock Exchange) on the London Stock Exchange (or other the stock exchange on which the same are so shown as quoted) on the last working day prior to the operative date and
- (b) any assets so comprised which are not so shown shall be taken to have such value on the operative date as the Trustees shall consider to be fair and proper.

4. From and after the operative date the Trustees may at their absolute discretion retain all or any of the investments for the time being comprised in the restricted fund as actually invested so long as the Trustees shall in their absolute discretion think fit or may at any time or times at the like discretion sell or otherwise realise any such investments and the net proceeds of any such sale or realisation and all other capital moneys (if any) from time to time received by the Trustees in respect of any assets for the time being comprised in the restricted fund and all income of the restricted fund required to be invested pending its application for the purposes of the Charity shall be invested in such trustee investments as the Trustees shall from time to time think fit with power for the Trustees at their discretion from time to time to vary or transpose any investments so made for or into any other trustee investments but so that no such moneys shall at any time be invested otherwise than in trustee investments.

5. From and after the operative date the Trustees may at their absolute discretion retain all or any of the investments for the time being comprised in the extended fund as actually invested so long as the Trustees shall in their absolute discretion think fit or may at any time or times at the like discretion sell or otherwise realise any such investments and (subject as hereinafter provided) the net proceeds of any such sale or realisation and all other capital moneys (if any) from time to time received by the Trustees in respect of the extended fund and all income of the extended fund required to be invested pending its application for the purposes of the Charity may at the absolute discretion of the Trustees be invested in any manner hereinafter mentioned with power for the Trustees at the like discretion from time to time to vary or transpose any investments so made for or into any others of a nature hereinafter mentioned that is to say:

- (a) in any trustee investments
- (b) in any preference or preferred or ordinary or deferred stocks or shares of or any debentures or debenture stock issued by any company

incorporated under the laws of the United Kingdom or of any overseas country

- (c) in the government securities of any overseas country or in the securities of any provincial municipal or other local government or public board in any overseas country
- (d) on deposit with any recognised bankers or savings bank carrying on business as such in any part of the United Kingdom or with any public authority institution or company in the United Kingdom whose normal business includes the acceptance of such deposits
- (e) in the purchase of any land in England or Wales of freehold tenure or of leasehold tenure held for a term of which at least 200 years is unexpired at the time of purchase.

PROVIDED ALWAYS

- (i) that no money shall be invested (except under paragraphs (a) (d) and (e) above) in any investment which is not dealt in and quoted on one of the following stock exchanges that is to say the Stock Exchanges of London, Birmingham, Manchester, Glasgow, New York, Montreal, Toronto, Melbourne, Sydney and Johannesburg
- (ii) that no money shall be invested in any partly paid shares but so that this prohibition shall not apply to the partly paid shares of any company incorporated in the United Kingdom and carrying on banking or insurance business in the United Kingdom and shall not prevent the acquisition of newly-issued shares or stocks which would otherwise be permitted hereby and of which the capital is by virtue of the terms of issue thereof to be paid by instalments of which the last is to be payable not later than eighteen months from the date of issue
- (iii) that no money shall be invested in the preference or preferred or ordinary or deferred shares or stock of or in any debentures or debenture stock issued by any company unless at the time of such investment such company shall have a paid up capital of at least £1,000,000 or its equivalent at the rate of exchange current at the date of such investment and so that in the case of a company having shares of no par value such paid up capital shall be deemed to include the capital sum (other than capital surplus) appearing in the company's published accounts in respect of such shares but so that this prohibition shall not prevent the acquisition of any shares offered for subscription to the public (which would otherwise be permitted hereby) if the full subscription for such shares would cause the paid up capital of the company concerned to amount to at least £1,000,000 or such equivalent as aforesaid
- (iv) that not more than an aggregate amount of £30,000 shall at any one time be invested in the purchase of land under paragraph (e) above and so that for the purposes of this proviso any land for the time being held by the Trustees under the provisions of this Scheme shall be deemed to have a value equal to the sum expended by the Trustees in the purchase thereof
- (v) that any land purchased under the provisions of paragraph (e) above shall be assured to the

Trustees for all the estate purchased upon trust to sell the same (with full power to postpone such sale) and to hold the net proceeds of any sale thereof upon the like trusts and with and subject to the like powers and provisions (including the provisions of the said paragraph (e)) as the moneys invested in the purchase thereof would have been held upon and with and subject to if the same had not been so invested.

6. (1) At any time on or after the operative date the Trustees may divide and appropriate the income and assets for the time being representing income of the Trust Fund received by the Trustees before the operative date and not for the time being having been applied for the purposes of the Charity into two separate funds (hereinafter respectively called 'the A income fund' and 'the B income fund' which expressions respectively shall include all assets from time to time representing such respective funds) in such manner as the Trustees shall think fit but so that the assets appropriated to the A income fund shall be equal in value to at least half the value of the assets appropriated to the B income fund.

(2) For the purposes of making such division and appropriation as aforesaid the provisions of Clause 3 of this Scheme shall apply as though references therein to the Trust Fund were references to the said income and the assets for the time being representing

the same and references therein to the operative date were references to the date when such division and appropriation is made.

(3) From and after the making of any such division and appropriation as aforesaid the B income fund shall be deemed for the purposes of this Scheme to be or to represent income of the extended fund.

(4) Subject as aforesaid all the income and assets representing income of the Trust Fund received by the Trustees before the operative date and not for the time being having been applied for the purposes of the Charity shall be deemed for the purposes of this Scheme to be or to represent income of the restricted fund.

7. Provided Always that so long as any assets for the time being subject to the trusts of the Charity are invested in any investments other than trustee investments the Trustees shall ensure that all such investments are kept under continual review by a member of the London Stock Exchange or other competent professional investment adviser and that any advice from time to time given by him is brought to the attention of the Trustees And for this purpose the Trustees may pay to such member of the London Stock Exchange or other adviser (whether or not he is a member of or of the Council of the above-mentioned Institute of Chartered Accountants) reasonable remuneration in addition to any disbursements or commission properly chargeable by him.

In Parliament

BUILDING SOCIETIES BILL

Clause 8. — (Powers of control: Supplemental provisions)

Motion made, and Question proposed, that the clause stand part of the Bill.

Mr A. P. COSTAIN: The clause properly empowers the Chief Registrar to require the production of documents, but some professional bodies are not sure whether, when they are asked to produce these documents in their professional capacity, as auditors, they will be properly entitled to claim their appropriate fees. I shall be grateful if the Economic Secretary can enlighten us with regard to the Government's view in this connection. Another point arising out of it is that an assurance is required that the production to the Chief Registrar of any books of account and other documents shall be without prejudice to any lien which may exist. I should be grateful if my hon. friend could clarify that.

Mr BARBER: I think I can help my hon. friend on each of those two points. As regards the production of books, it is quite clear from subsection (1) that the only obligation is to produce the books to the Chief Registrar and not to surrender them. If it were thought desirable for the Chief Registrar to borrow the books for a while to examine them, as opposed to just having them produced to him, that would, I think, be a matter for arrangement between the auditors and the Chief Registrar. The auditors could refuse, but if they decided to help the Chief Registrar, they could provide for such conditions as they thought fit to safeguard their interests. I do not think that there would be any difficulty on that account as the clause is drafted.

On the matter of fees, I understand that it has been suggested that there should be a provision in the Bill for the payment of fees. I think that that has been put to us by the Institute of Chartered Accountants. I hope that it will be sufficient for the purposes which my hon. friend has in mind if I state categorically that our view is that this is unnecessary because it has in the past been the practice of the Chief Registrar to pay expenses under the almost identical wording of Section 111 of the Prevention of Fraud (Investments) Act, 1958. The Registrar has always paid expenses genuinely incurred and he will continue to do so in the future. I hope that,

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with that assurance, my hon. friend will regard the wording as satisfactory.

Mr MITCHISON: I want to be sure that I have this right. Let us take subsection (1). The Chief Registrar may serve notice to produce documents on a building society.

'or on any person who has in his possession or under his control'

such documents, that is to say, documents

'relating to the business of the building society'.

It goes beyond the ordinary procedure in the Courts where the only person who may be called upon to produce documents is a party to the suit. It has been held, I believe, that, if documents have been prepared professionally by a professional person such as, for instance, a solicitor or an accountant for his use as a professional person and not for production to the client, in this case the building society, he cannot be called upon to produce those documents.

This clause goes beyond that, because, as I see it, if the accountants, to take that particular case, have made a great variety of notes for their own use, provided that they were documents relating to the business of the building society, they would be bound under a criminal penalty in subsection (4) to produce them. In this kind of case, I should not have thought that those very stiff provisions would lead to very much difficulty, but I wonder whether the Economic Secretary is right about the lien. There is a professional lien, for what it is worth. It depends upon possession. If possession is parted with, even under an agreement, the lien goes. If one wants to preserve the lien, it might be as well to say so, I think. I simply advance those observations for consideration, not for an immediate answer.

Question put and agreed to.

Clause ordered to stand part of the Bill.

House of Commons Official Report: Standing Committee 2, July 5th, 1960. Cols. 117-119.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS PORTLOCK & Co, Chartered Accountants, of London, WC1, announce with deep regret the death on July 8th of their senior partner and founder of the firm, Mr E. PORTLOCK, F.C.A. The practice continues to be carried on by the surviving partners under the same firm name.

MESSRS CRAM, WORSLEY, ROBERTSON & TAYLOR, Chartered Accountants, of 41 Reform Street, Dundee, regret to announce the death on July 5th of their senior partner, Mr DOUGLAS DRUMMOND TAYLOR, C.A. The practice will be continued by the remaining partners at the same address and the name of the firm will remain unchanged.

MESSRS GEORGE LANG & Co, Chartered Accountants, announce that as from July 11th, 1960, they have removed their offices from 3 Eldon Square, Newcastle upon Tyne, to 14 Archbold Terrace, off Jesmond Road, Newcastle upon Tyne, 2. Telephone: Newcastle 313115.

MESSRS DUNN, WYLIE & Co, Chartered Accountants, of 10 Drapers' Gardens, Throgmorton Avenue, London, EC2, announce that Mr NICHOLAS JOHN FOLEY, C.A., who has been associated with the firm for several years, has been admitted a partner as from July 1st, 1960. The style of the firm remains unchanged.

MR JOHN SMURTHWAITE, A.C.A., C.A.(CAN.), announces that as from July 1st, 1960, he is practising under the style of SMURTHWAITE & Co, at 726 Salisbury House, London Wall, London, EC2. Telephone: National 9422.

Appointments

Sir Richard Yeabsley, C.B.E., F.C.A., has been re-appointed chairman, for three years, of the British Film Fund Agency.

Mr J. F. Shearer, O.B.E., F.C.A., has been appointed by the Lord Chancellor to be a member of the Advisory Committee constituted under the provisions of the Legal Aid and Advice Act, 1949.

Mr Eric Turner, A.C.A., has been appointed a director of English & Scottish Investors Ltd.

Mr Eric Potter, A.A.C.C.A., has been appointed chief accountant of Pirelli Ltd as from July 1st.

BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY

Eleventh Residential Course

The eleventh residential course for articled clerks to be arranged by the joint lecture committee of the Birmingham and District Society of Chartered Accountants and the Birmingham Chartered Accountants' Society will be held from Wednesday, August 31st to Saturday, September 3rd, at Balliol College, Oxford.

The course, which will be on the same lines as in previous years, will be divided into Final and Intermediate sections, each of which will have lectures on examination subjects. These will be followed by discussion in groups under qualified group leaders.

The course is designed primarily for those taking examinations within the next twelve months, but others will be welcome to attend. The course fee is

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£4 for students enrolled for the joint lecture committee's course of lectures and for members of the Birmingham Chartered Accountant Students' Society residing more than twenty-five miles from the centre of Birmingham, and £6 for all other students. Application forms are available from the clerk to the committee, 36 Cannon Street, Birmingham, 2, and should be returned not later than August 15th.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The first of a series of controversial student debates organized by 'The Taverners' was held on July 5th at the Overseas League Hall. The motion before the meeting was, 'This house supports the campaign for unilateral nuclear disarmament'. The chair was taken by Miss Manuela Sykes, a Liberal candidate for Parliament, and guest speakers were Mr Kingsley Martin, editor of *The New Statesman*, for the motion, and Mr Andrew Bowden, chairman of the Young Conservatives, against; the debate was initiated by Mr M. A. Line and Mr J. M. Iredale.

After a heated discussion, the motion was carried by thirty-four votes to twenty-five with sixteen abstentions and the meeting then adjourned to refreshments and unanimous cordiality.

The committee of 'The Taverners' have indicated their desire to thank the members and their guests who attended this debate, the success of which has determined them to continue the series. The next debate will probably be held in October.

THE INSTITUTE OF INTERNAL AUDITORS Birmingham Chapter

At the recent annual general meeting of the Birmingham Chapter of The Institute of Internal Auditors, the following officers were elected for 1960-61:

President: Mr Frederick Fox.

Vice-President: Mr Charles Lancashire.

Hon. Secretary: Mr George T. L. Judson, Ansells Brewery Ltd, Aston Cross, Birmingham, 6.

Hon. Treasurer: Mr Sydney Cuttall, A.A.C.C.A.

Governors: Messrs Reginald H. Pitchford, A.A.C.C.A., Ronald C. J. Lucas, A.A.C.C.A., Paul H. A. Nutt, A.C.A.

BIRTHDAY HONOURS

Correction

In congratulating members of the profession who featured in the Birthday Honours List, in our issue of June 18th, we referred to Mr E. R. Arrigo, F.C.A., of Malta, as being the recipient of the C.B.E. We are now informed that this was an error; the honour was conferred on the Hon. Edward G. Arrigo, a member of the nominated Council and a prominent business man in Malta, who is not, however, a member of the accountancy profession.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 18TH, 1885

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN
ENGLAND AND WALES

At a meeting of the Council held on the 15th inst., at the Office of the Institute, 3, Copthall Buildings, E.C., there was present Mr. F. Whinney, President (in the chair), Messrs. J. Bath, J. H. Blackburn, J. C. Bolton, E. Carter, D. Chadwick, A. W. Chalmers, Arthur Cooper, W. W. Deloitte, W. Edmonds, J. G. Griffiths, A. C. Harper, Geo. W. Knox, G. B. Monkhouse, F. Nicholls, H. G. Nicholson, E. T. Peirson, J. J. Saffery, T. G. Shuttleworth, J. H. Tilley, W. Turquand, and C. H. Wade.

The resignation of Mr. W. Russell Crowe, A.C.A., was accepted.

The Examination Committee reported the result of the examinations in June as follows:

	Passed.	Failed.	Total.
Preliminary	21	18	39
Intermediate	27	5	32
Final	44	27	71

Examination equivalent

to the Final

That as to two candidates for the final examination they had not yet arrived at a decision, and that they had granted a certificate of merit to Mr. Claude Frederick Schoolbred, clerk to Messrs. Chandler, Pixley and Co., 24, Moorgate Street, E.C.

ANNOTATED TAX CASES

Part 7 - the concluding part - of Volume XXXVIII of the *Annotated Tax Cases*, edited by Mr Roy E. Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *Unit Construction Co Ltd v. Bullock* (H.L.); *Hochstrasser v. Mayes* (H.L.); *Philpston-Stow v. C.I.R.* (C.A.); *C.I.R. v. Hood Barrs* (C.S.); *The Public Trustee (Lord Northcliffe's Trustee) v. C.I.R.* (H.L.); *Coats' Trustees (Parker) v. Lord Advocate* (H.L.); *C.I.R. v. Pattison, Coumides and Louca (The Rainbow Restaurant)* (C.S.); *Dain v. Auto Speedways* (Ch.D.); *Taw and Torridge Festival Society Ltd v. C.I.R.* (Ch.D.); *Roberts v. McGregor* (Ch.D.); *Mitchell & Edon v. Ross* (Ch.D.). The index of cases and subject-matter for the volume will be published shortly, after which the volume may be bound.

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THE ACCOUNTANT

ESTABLISHED 1874

JULY 23RD, 1960

VOL. CXLIII. NO. 4466



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Commentary without Comment

THE one fundamental criticism, of financial institutions in general and the Bank of England in particular, is that we should go further and faster in the assembly, and more particularly in the publication, of financial information and in the business of explaining to the public what we are about'. This brief excerpt from the speech of THE GOVERNOR OF THE BANK OF ENGLAND at the annual banker's dinner at the Mansion House last November is a fair enough summary of the chapter in the Radcliffe report, which in the opinion of many was the most critical (and for some the most useful) contribution of the committee on the working of the monetary system. Appropriately enough, it also serves to introduce the Bank's much expanded report for the year ended February 29th, 1960.

It cannot be denied that the new report is a considerable improvement upon its predecessors, consisting as it does of some fifty pages shared between a written text and a substantial selection of statistical tabulation. It was the opinion of the Radcliffe Committee that the 'apparent reticence (of the earlier annual reports) does harm to the standing of the Bank as a national institution and fails to enlist the active interest and support of outside experts who have no means of access to the thinking of the Bank on the problems it faces' (paragraph 859). As an effort in public relations, the previous reports were indeed quite useless; the 1960 report is a substantial improvement, although it still falls short of what the serious critic and commentator may reasonably expect.

Invaluable as the statistical appendices of the report are for the student of monetary affairs, main interest concentrates on the twenty pages of commentary which is divided into two main sections. The first deals with the internal capital and money markets, while the second section discusses external monetary developments. In view of the Government's evident reliance on monetary policy to maintain economic and price stability, it is singularly appropriate that the first 'new-look' report should appear at the present time. For the same reason it is all the more to be regretted that it contributes so little more to what has already been written and said about the efficacy of the present policy.

According to the report Bank rate was raised last January from 4 to 5 per cent 'largely for domestic reasons'. These were, the pressure on the labour market and the prospect of renewed wage claims, coupled with the continuing expansion in consumer

hire-purchase. Board of Trade and Federation of British Industries inquiries at the end of 1959 had both revealed the prospect of increased capital expenditure in industry and this fact, linked with the announcement of increased departmental outlays for 1960-61, made any further delay in restraining the inflationary tendencies impracticable. The authors of the report permit themselves a solitary if somewhat oblique criticism of the growth in Government expenditure with the observation that it 'again brings into prominence the recurrent problem of the right balance between fiscal and monetary measures in bringing about the necessary degree of restraint'. This is a relevant, if hardly profound, comment; one might reasonably expect something better from the Bank's report.

The events which led to the withdrawal of official support in the gilt-edged market and the consequent slump in mid-February, are explained by the need to maintain orderly market conditions. According to the report, these could not have been achieved by Treasury support on the scale required to offset 'so large a weight of selling'. Something at least appears to have been learned from DR DALTON's experience! The statistical analysis reveals the extent to which the clearing banks unloaded gilt-edged to maintain their progressive lending policy, but the report notes that domestic lenders, other than the institutions, were prepared throughout the year to lend more than enough to cover the overall budget deficit. The National Savings movement's 'outstanding contribution' is rightly acknowledged.

Just as internal pressures in the New Year impelled the authorities into action, so at the same time 'the immediate external position also seemed to call for more in the direction of restraint'. The reserves had been falling since November and while they had not yet reached alarming proportions, had they persisted, 'the risk of weakening confidence in sterling could have become serious'. To the extent that some part of the loss could be attributed to movements of short-term funds in response to higher interest rates in countries suffering from credit stringency, an increase in Bank rate seemed to be the appropriate step. According to the report, the January increase 'did in fact help to check the moderate outflow of reserves'.

The current reliance on Bank rate and interest rate manipulation finds some justification in the fact that 'the main emphasis of restrictive measure in most of these countries (U.S.A., Germany, etc.) was placed on monetary policy . . . and the action which they have recently taken to restrain inflationary pressures is an indication of the higher priority now being given to the avoidance of inflation. . . . Most of these countries may be expected to show a greater degree of flexibility in adjusting their monetary and fiscal policies, according to circumstances, than in recent years'. And, as already noted, the relatively soft United Kingdom budgets of 1959 and 1960 necessitate a stricter monetary policy at home.

The report notes that in addition to repaying medium- and long-term debt, it was also possible to make a substantial contribution in gold to the International Monetary Fund as well as maintaining a high level of new investment abroad, without more than a 'comparatively modest fall in the reserves'. This is true, but it was possible only because of the excellent surplus achieved during 1958-59 on the current overseas payments account. The more recent performance of British industry in the export market is becoming, as MR MACMILLAN's speech this week revealed, a matter of concern at the highest level. The need for substantial surpluses on overseas account is evident from the fact that £135 million was provided by the Government alone in aid to the 'less-developed countries' during 1959-60. 'This was a much larger sum than in any previous year and the increasing demand from these countries for capital is likely to bring pressure for even larger amounts'.

The prospect for private overseas investment is similar. While this is an international problem it is, as the report stresses, 'of particular concern to this country'. To meet these commitments 'will require the use overseas of resources that might otherwise be used at home and this factor must be taken into account when seeking to avoid overstrain in the economy'.

This new Bank report is to be welcomed more for what it promises in the future rather than its present content. It is to be hoped that the new quarterly bulletin, the first of which is promised for the end of 1960, will provide a higher level of critical commentary on events and more detailed explanations of banking policies.

FINANCE BILL

Taxing Capital Gains—III

THE previous article in this series dealt with clause 21 (12) of the Finance Bill which provides limited relief against double taxation, by restricting balancing charges imposed on a company after a sale of its shares on which the seller has borne tax under clause 21. The point was not unnaturally made that, as a matter of logic, there should be a corresponding restriction of balancing allowances. It is true that if the written-down value of capital allowance assets has been taken into account in computing clause 21 liability, a subsequent balancing allowance to the company contains an element of double relief. Happily the Government, no doubt on the advice of its draftsman, recoiled from the awful complications to which such a provision would give rise.

The point was also made in the House of Commons that where the holder of a small minority of shares sold them he might not even know that the buyer controlled the company and might not be a tax avoider in the ordinary sense. Accordingly relief is provided for him by a new sub-clause (4) introduced at the report stage. It is subject to two conditions, viz.:

- (i) the amount assessable under clause 21 exceeds the rise in the value of the shareholding since the seller acquired it; *and either*
- (ii) immediately before the sale the seller's holding was less than 5 per cent of the issued capital; *or*
- (iii) clause 21 has already had effect in relation to the same trading stock.

The seller has six years in which to apply for relief. If the case is within (ii) above he must also satisfy the Inland Revenue that he did not acquire his shares in pursuance of an arrangement for transferring control of the company to another person. Having survived all these hurdles he is then entitled to such relief as the Inland Revenue consider reasonable and just, but he has a right of appeal from them to the General or Special Commissioners who will substitute their own ideas of reason or justice, where they are different.

It will be recalled that clause 21 cannot be

applied if the seller of the shares in question satisfies the Commissioners that the trading stock of the company has been or will be disposed of either in the course of the company's trade or to a trader in whose hands it will be trading stock (sub-clause (2)). This recognizes that the object of clause 21 is purely to prevent avoidance. It may be that the seller fails to satisfy the Commissioners and accordingly pays tax under clause 21, but nevertheless the company does receive money for the trading stock, or some of it, which is brought into charge to tax as a trading receipt. Accordingly, to prevent double taxation in this respect, sub-clause (11) provides that such money

'shall be disregarded for income tax purposes if and to the extent that it is just so to do having regard to any tax charged under the foregoing provisions of this section (being tax charged at the standard rate): Provided that nothing in this subsection shall be construed as requiring receipts to be disregarded in so far as they are in the nature of rent or hire'.

The draftsman evidently felt unequal to the task of defining to what extent the receipts should be ignored, and has thrown upon the long-suffering (and mostly unpaid) Commissioners the task of working out what is 'just'. Nor is there any provision for any refund to the seller of shares; he presumably must be content with the thought that he has borne at his own expense some of the tax which the company ought to have borne. It remains to be seen whether the Commissioners will take this into account when considering what (if any) relief *to the company* will be just. Another uncertainty is whether or not this disregarding of receipts, once determined, is to be reflected in the profits tax computation. True, the seller of shares will not have borne any profits tax, but the general profits tax legislation requires that profit is to be computed on income tax principles. Moreover, the seller may well have borne surtax at a rate higher than the rate of profits tax.

Clause 21 deals with the reverse case; where the seller of shares satisfies the Commissioners that the company's trading stock *will* be disposed of by way of trade but it is not in fact

so disposed of. If trading stock is still held by the company on the sixth anniversary of the sale of shares then a clause 21 assessment can be made unless either

- (a) the company has ceased trading; or
- (b) the taxpayer satisfies the Commissioners that the retention was for bona fide reasons connected with the trade.

As we have indicated, it is a condition precedent to an assessment under clause 21 that the Inspector shall initiate proceedings. This leaves the seller of shares in some doubt as to whether or not he is going to be taxed. Accordingly, at the report stage the Government introduced what is now clause 21 (9) which enables the seller to have the matter determined. The seller and buyer can send particulars to the Inland Revenue of the proposed sale, who then have thirty days in which to call for further particulars, which must be supplied to them within a further thirty days. The Inland Revenue must, within thirty days of the original application, or within thirty days after receiving the additional particulars, notify the proposed buyer and seller as to whether they are satisfied that the trading stock will be disposed of by way of trade. If the Inland Revenue actually say that they are satisfied, then the Inspector cannot start proceedings in respect of the sale – provided the sale takes place within six months after the notification by the Inland Revenue. There is one flaw in this procedure; if the Inland Revenue fail to clear the proposed sale, there is no provision for automatic clearance, on the lines of a surtax direction clearance. It is to be hoped that once they have exceeded their time limit, the Inland Revenue will in practice give a clearance, whether they are satisfied or not.

So much for clause 21, which is confined to sales of shares in companies which carry on trade and which therefore have trading stock. Clause 22 takes the anti-avoidance provisions somewhat further by, in effect, applying clause 21 to a company which does not carry on trade, but erects a building, or secures its erection. Property developers have avoided vast amounts of tax by forming *ad hoc* 'investment' companies for the purpose of erecting buildings. If the company itself sold the building when completed, it might well have difficulty in resisting the argument that it was trading – notwithstanding that its objects

clause precluded trading. However, if the shareholders sold the shares in the company, this could not be said to be a trading operation by the company itself. Hence clause 22, which provides that such a company is to be deemed to carry on a trade if:

- (i) after the erection has begun and not later than six years after it is completed; .
- (ii) shares in the company are sold to a person who has or will have control; and
- (iii) one-fifth or more of the net assets consists of the company's interest in the building or of that interest plus its interest in any other building erected by it not more than six years before the sale.

The interests mentioned in (iii) will be treated as trading stock of this notional trade. A proportion of the company's expenses will be treated as trading expenses; the proportion to be such 'as may be just' (clause 22 (1)).

Pausing there, clause 22 (1) could be avoided by the building company first selling the building, or an interest in it, to the purchaser of the shares or to some intermediary, so that the company's own interest in the building at the time of the sale of the shares was less than the one-fifth. Alternatively, the building company could sell the building cheaply and then the shareholders could sell shares at an inflated price. Clause 22 (2) is directed against this device. It applies where, before the sales of shares,

- (a) the company has sold its interest in the building (or other building) to the purchaser of shares or its 'associated company'; or
- (b) the company has created an interest in the buildings in favour of the purchaser of shares; or
- (c) the company has sold to (or created an interest in favour of) *any* person, if the purchaser of the shares or its 'associated company' acquires the interest under an arrangement made before the sale of the shares.

The effect of clause 22 (2) is to make clause 22 (1) apply as if the full interest in the building were still vested in the building company at the time the shares were sold, any consideration received by the building company being likewise disregarded. (To be continued.)

Whole Pound Accounting

by J. G. BLACKBURN, F.C.A.

ALTHOUGH adopted by many large undertakings, whole pound accounting has not yet received the popular following which it could achieve and which it deserves.

All accountants are familiar with the accepted rounding up of pounds in published accounts. Final figures and also periodical financial statements and statistics for internal management use are produced more easily and quickly, however, if the rounding to the most convenient unit (usually £1) is done at an earlier stage in the assembly of figures.

The concept of 'Look after the pence and the pounds will take care of themselves' need not be abandoned provided it is followed in the originating stages, i.e. when incurring or approving expenditure or fixing selling prices. However, when a large number of like items are aggregated or summarized, fractional amounts cease to have any interest, and in fact detract from the effect given when results are examined and compared.

The advantages of dealing in pounds only are obvious:

- (a) fewer figures to be entered and totalled;
- (b) easier balancing of individual accounts in the nominal ledger;
- (c) easier balancing of the ledger itself;
- (d) speedier extraction of figures for monthly or other periodical accounts;

with no fears that irritating discrepancies can occur in accounts and reports by rounding up on one schedule and rounding down the same figure on another schedule.

To achieve this object, the various summaries from books of original entry need to be examined and possibly slightly rearranged. No drastic changes are involved in this as will be seen, although it may well be that changes will follow as a result of attention focused when removing some of the detail.

Private Ledger

The private ledger will normally be divided into two main sections:

- (a) Balance sheet items – assets and liabilities, capital and reserves. The accounts will normally be in the order in which they appear, either individually or as part of a group sub-total, in the balance sheet itself.

- (b) Profit and loss items. These accounts too will normally be in order of their appearance in the detailed accounts, and the same considerations apply whether these accounts are contained in one or more ledgers dependent upon the amount of analysis required.

The ledger accounts will normally be conveniently coded for posting and reference purposes and it is useful to have a distinctive code so that it is obvious where any particular account is destined to appear, in the balance sheet or profit and loss account, however quaint the description given to the item. A simple code would be, for example, to use two-figure numbers for balance sheet items and three-figure numbers for profit and loss items.

This would lend itself readily to postings being made from monthly, weekly or other periodical analyses or posting medium summaries in exact amounts to accounts in the first category and in round pounds only to accounts in the second category.

Profit and Loss Items

The first step to whole pound accounting is the removal of shillings and pence from the profit and loss section of the private or nominal ledger, relegating them to a separate account kept preferably at the end of the ledger.

The majority of entries are likely to be made from summaries of cash, petty cash, sales, purchases, stores issued analysis, payroll analysis, and transfer journal. The respective summaries may represent totals shown by analysis columns in bound or loose-leaf books, or may represent analysis tabulations prepared mechanically or by hand. It is normally desirable for this first analysis to be in exact amounts in order to prove the accuracy of the analysis, but all that is needed for posting to accounts in the profit and loss section of the ledger is the account code and the amount to the nearest pound. The amounts so adjusted for posting can be shown alongside or underneath the first analysis obtained.

The balancing figure of the odd shillings and pence (which may be debit or credit) would be allocated to the separate 'shillings and pence account', thus making up the total to be posted, the total itself normally being posted to an account in the balance sheet section. It is convenient to

show the shillings and pence adjustment in red when the figure is a minus quantity (or, of course, in black if the other figures, being credits, are already shown in red).

Where there is not a convenient analysis for posting purposes but it is the practice to post individually, e.g. from a miscellaneous column of a cash book, it would be desirable to arrange for an extra column to be used so that odd shillings and pence are separately analysed and totalled, leaving miscellaneous items posted individually to be taken in whole pounds. It normally follows that if any column is posted individually, there are insufficient similar items entered to justify either a separate column or a separate sub-analysis.

Naturally, the more individual items which are rounded up or down instead of merely summaries being rounded, the greater is the possibility of error, but this is a reasonable calculated risk to take. If there are a large number of items to be individually treated, it seems to suggest that a more convenient means of summarizing needs to be found to relieve the private ledger of too much detail. If a separate column is not available for analysing and summarizing odd shillings and pence, the principles described here can still be followed by a dual posting for each odd amount, with the posting folios shown for both the main account and the 'shillings and pence account' (distinguishing the latter by colour to show whether debit or credit).

Shillings and Pence Account

With all entries from books of original entry posted in whole pounds, it follows that subsequent private journal entries will be in whole pounds. These will include all reallocations of expenditure, all apportionments of expenditure to separate internal departments, and the calculation and insertion of all accruals and prepayments. The only occasions when shillings and pence will then appear in the private journal are if it is necessary to transfer from or to write off a balance in a debtor, creditor, or stock account which happens to contain odd shillings and pence. Then, of course, the odd shillings and pence will be transferred to the 'shillings and pence account'.

Thus, all nominal accounts can be conveniently kept in whole pounds, and odd shillings and pence relegated to one separate account. At the end of any accounting period, the whole pounds in the 'shillings and pence account', which would normally be a very small amount and immaterial in effect, would be cleared by being transferred to general expenses.

Balance Sheet

Whole pound accounting can also be extended to the accounts from which the balance sheet is built up, but the degree to which this can be done will vary according to particular circumstances.

To a large extent, asset and liability accounts, are control accounts and as such must agree exactly with the sum of the individual items making up the control figure. As such, too, the control accounts must be kept in exact amounts, particularly where outside parties are affected as is the case with bank accounts and with debtors and creditors controls. This need not apply, however, when the control account concerns a subsidiary ledger for internal uses only, such as the asset register, or stock and work in progress ledger. Similarly it would not apply to suspense accounts and the accounts in which accruals and prepayments are aggregated.

There seems to be no real reason why the register of fixed assets should not be kept in whole pounds, involving each individual item being taken to the nearest pound. No self-respecting accountant nowadays will capitalize trivial amounts, and any error in total due to capitalizing additions to the nearest pound only is unlikely to exceed the maximum sum which is reasonably regarded as immaterial in the circumstances.

With individual items rounded in whole pounds and the control account in whole pounds, depreciation and profits and losses on sales will, of course, also be calculated in whole pounds. Any odd shillings and pence included in proceeds of sale would have been eliminated and transferred to the 'shillings and pence account' from the cash book or purchases or sales analysis.

Stock

It is more difficult to generalize on stock and work in progress, as the degree to which the subsidiary records lend themselves readily to whole pound accounting varies considerably.

Whole pound accounting would be eminently suitable:

- (1) Where no financial stock control is kept, when the cost of sales is merely the difference between opening stock plus purchases, less closing stock.
- (2) Where stock accounts are kept for totals of product groups or totals by material classifications.
- (3) When collecting costs on large contracts.

At first sight, it appears rather less suitable where a vast number of small accounts are kept in quantity and value and issues are made in



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small quantities, but the cost of stock-keeping in such cases is likely to be relatively great and consequently the greater is the scope for economy by the acceptance of the less exacting method of whole pound accounting.

Certainly, in many cases, final calculations of individual items on the stock sheets for balance sheet purposes could well be taken to the nearest pound, thus speeding up the preparation of the final total by reducing calculations and the number of figures to be totalled and carried forward.

The full advantages of changing over to whole pound accounting will be more readily apparent where the private ledger is posted by hand or by keyboard accounting machines, which is probably so in the vast majority of cases, but will be somewhat less apparent when compiled by means of punched card or more advanced accounting equipment. The advantages would then arise at a later stage when the skill of the accountant is first brought to bear to interpret and use the information provided.

Accounting and Capital Investment

by KENNETH S. MOST, LL.B., F.C.A.

The Problem Stated

IF an importer buys a product abroad and sells it in this country, the cost to him of that product is a variable cost. It is, in fact, a proportionally variable cost. Where quantity discounts and similar complications do not arise, the product is a constant unit cost—so much per piece—so that the cost of purchasing one hundred units will be exactly one hundred times the cost of purchasing one unit.

This appears to be a happy situation for the importer. When business is good, he buys more of the product; when it is bad, he buys less. He has no fixed costs, other than those occasioned by his selling activities, no investment in factory buildings, plant and machinery, inventories of raw materials and manufactured parts, and no need to provide working capital for paying labour. As his capital investment is small, when business is good the profit: capital ratio is high; when it is bad, losses are small. Why, then should he want to manufacture the product himself?

The situation arises frequently, however, and a product which has been an import at some stage becomes a domestic manufacture. A similar situation occurs when a wholesaler or retailer decides to manufacture the goods he sells, instead of buying them from other producers.

Some of the reasons which may cause these changes are apparent. The importer, for example, may wish to assure his supplies against a variety of contingencies. The wholesaler or retailer may wish to influence more directly the design, quality or price of his wares, or obtain for himself all or part of the manufacturer's profit. But if we assume that the ratio of profit to capital is a valid criterion for investment decisions, that risk of loss through interruption of supply is less than risk of loss

through unused capacity, and that there are alternative uses available for the capital to be employed in manufacturing, the problem is not so easily solved.

The Expanding Market

One influence which prompts a business man to undertake his own manufacturing activity is the existence of a rapidly expanding market for the product. In this case, the business man reasons that the investment required to set up a plant can be recovered from sales in a period of, say, two-three years. At the end of this period, his capital investment will have liquidated itself, so that from the investment point of view he will be back more or less where he was. As a result of the investment, however, the cost to him of the product will be considerably lower than what he is now paying. It will include neither the fixed costs nor the profit margin of his supplier. If business is good, therefore, his profit: capital ratio will be even better; if bad, there is even a possibility that he will continue to 'make money'.

Something, intervenes, however, between the business man's intention and his achievement. At the end of the first year of manufacturing, accounts are prepared to show its result. The accountant is not concerned with the business man's intentions; he must look at the facts. What are the facts, then? A manufacturing plant has been purchased at a cost of, say, £100,000, which has a useful life of, at the worst, ten years. This means that £10,000 must be shown as an expense of the year before a profit figure can be arrived at, being one-tenth of the capital expenditure. A further one-tenth will be charged to expense each year until the capital expenditure is fully amortized.

Let us quantify for the sake of an illustration.

Suppose that the plant manufactures 10,000 units per annum, all of which can be sold for £20 each. The cost of producing these 10,000 units is £100,000 plus amortization of the investment. The business man's calculation proceeds as follows:

	Revenue	Capital
Investment		£100,000
Sales (two years) ..	£400,000	
Costs (two years) ..	200,000	
	<hr/> 200,000	
Less Recovery of investment	(100,000)	(100,000)
	<hr/>	<hr/>
Net profit (two years) ..	100,000	
Investment at end of second year ..		—

Ratio of profit : capital — 100 per cent, or 50 per cent per annum for two years.

The accountant's calculation proceeds like this:

Year 1 — Sales	£200,000
Costs	110,000
	<hr/>
Net profit	£90,000
	<hr/>
Year 2 — Sales	200,000
Costs	110,000
	<hr/>
Net profit	£90,000

Ratio of profit : capital — 90 per cent per annum.

The consequence of showing a profit of 90 per cent per annum is likely to be a substantial distribution of profits, as well as a liberal transfer to 'reserve'. This means that the liquidation of the capital investment takes the form of a dividend rather than a return of capital. At the end of the second year, instead of his capital investment being nil, the business man's balance sheet shows £80,000, plus reserves. Instead of future years' costs being free from amortization of capital, they must bear a further eight annual charges for depreciation.

The Difference in Action

If, then, the third year's sales fall to £100,000 and costs show a relatively smaller reduction, then the profit will be substantially lower. In the event of a profit of £10,000, the profit:capital ratio becomes 10 per cent or even less if reserves are taken into account. If selling prices are reduced to meet a declining demand, or increased competition, then there may be a loss. The very situation which the business man sought to avoid has arisen. Or has it?

Can the accountant's calculation, or mis-

calculation, of profit have any bearing on the basic economics of the business man's action? Logically it should not detract from the wisdom of his decision, unless the figures shown in the accounts lead to other decisions which are inconsistent with the original intention and the subsequent facts. One point is permissible, however, the fact that the original investment has not been liquidated in the manner intended, having been distributed as a dividend instead of a return of capital, may have the effect of preventing the capital from being made available for further investment. This can be illustrated by another example.

There is a growing export market for product A. in foreign country X., and a small market in foreign country Y. By establishing a factory in X., a producer can expect a profit:capital ratio of 50 per cent for the first few years and also a return of his capital. The results of these years bear out his optimism, but during this period the market in Y. has grown to a point where it would justify setting up a factory there. In the meantime, because of competition in X., the profit there has fallen considerably.

Now, the producer may be able to finance a factory in Y. and a factory in X.; or he may have to manufacture on a smaller scale in Y. than the market will support; or he may have to export from the home factory, or from X. Basically, however, he is in the same position as the business man in the previous example. He has protected himself in market X., so that his profit:capital ratio there is better than it would have been had he not set up the factory. He would like to take advantage of the opportunity which market Y. offers, and protect himself there, too. But the effect of the conventions underlying the presentation of his accounts is to obscure the profitability of the former action, and to restrict the capital available for the latter.

Is this a Problem for Accountants?

Either this is an academic discussion, or else it is a simplified description of a problem which must be faced by accountants if they are to reform their ways. Are we entitled to disregard business men's intentions when we prepare their annual accounts, and thus endanger their objectives? Is it not possible that many businesses now showing poor ratios of profit to capital invested are in fact more economic than their figures reveal? Above all, is our vaunted reputation for conservatism only a clinging to conventions which are more damaging to the interests we seek to advance than the conduct of those we are appointed to restrain?

What Management Expects of the Internal Auditor in the Changing Conditions of Industry

by PROFESSOR R. W. REVANS
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THE NATURE OF INDUSTRIAL CHANGE

Science as the Primary Agent of Change

WE have heard something of the impact that applied science is already making, and will continue to make with accelerating effect, upon industry and commerce; how a technique, namely, electronics, when decently married to a principle, namely, negative feedback, could, given imagination and confidence, be used to amplify the powers of the manager no less than those of the engineer. The growth of servo-mechanisms and high speed, high capacity computers for managerial as well as for technological control is, I suppose, regarded with especial wonder, if not, in some quarters, with positive dread, because it brings directly into the manager's office the biggest threat of change since the invention of double-entry book-keeping in the year that Columbus discovered America.

Nor is it simply a threat of procedural change; it is, ultimately, a challenge to everything the manager does, even to the way he thinks. To the pure scientist, on the other hand, the growth of automatic data processing and thus of managerial control must take its place in what he regards as a perfectly logical sequence of scientific development, no more and no less spectacular than such purely technical advances as, say, radio-astronomy and moon rockets, or electron microscopes and streptomycin. For the industrial economy to which we must give our attention today is not characterized by threats of change in the office alone; it is in fact already changing in all its main technical aspects, machines and products, materials and processes, under the pres-

ures of original scientific research and of development programmes that have become essentially as scientific as anything carried out in a laboratory. Indeed, Britain, as the country that produced in Charles Babbage the first designer of a computing engine with a stored programme, has been remarkably slow in making use of his ideas for managerial control.

Nevertheless, the growth in the technical use of scientific ideas is particularly evident in Britain, if only because our economy is at present sharply divided between our old industries and our new, those dependent upon visible mechanical power, on the one hand, and those upon the invisible secrets of nature, on the other.



Professor R. W. Revans

Britain as the Workshop of the World

The traditional wealth of Britain was first established in the eighteenth century, on coal, cast iron, textiles and pottery, and vastly amplified by the steam locomotive in the nineteenth century. But the marvels of 1760, which included the discovery of carbon steel and the foundation of Wedgwood's first factory at Burslem, owed nothing to science, even although Wedgwood was to become a Fellow of

the Royal Society before he died. There was little enough industrial enthusiasm for science, indeed, even by 1860; our supremacy among the industrial nations of the world was still unchallenged, but, as a century before, our continuing success owed nothing to the support of theory or research.

Since we are meeting in Lancashire we can illustrate our point sufficiently by observing what, in 1860, the City of Leeds was doing for education in science; it held one class in chemistry, given in a cellar, by a teacher who was paid less than five shillings per week. Those who suspect me of Lancastrian bias may prefer to hear that John Dalton, whose atomic hypothesis had already won him a

An address to the first United Kingdom regional conference of The Institute of Internal Auditors held at Blackpool in May 1960.

European reputation, was obliged to maintain himself by giving lessons at half a crown an hour while some Manchester manufacturers were, without the benefit of either science or education, making personal fortunes of a million pounds or more. It was in this essentially non-scientific – and not seldom anti-scientific – tradition that our older industries were born, and those who have either worked in them or tried to arouse their interest in science as an aid to management, know that, although there are honourable exceptions, a few still bear the traces of it in 1960.

The Challenge of the New

But the pace today is no longer set by those with whom such spectacular success has lain in the past. Our modern, science-based industries are not only rapidly developing themselves and their associated technologies, but their technical influence is pervading all corners of our economy. The chemical industry, for example, is not only now selling for direct consumption thousands of products that it did not make twenty years ago because they were unknown to mankind, but it has become the basis of wholly new industries; this growth it owes to the research that it is conducting, or, in other words, to the amount of scientific thinking in which it is engaged. It has even created elements, like plutonium and neptunium, not known to exist in nature.

The same conclusions can be drawn from a study of the other great science-based industries, namely, electronics and oil-refining; the contrast, as well as the historical lesson, can be driven home by observing what proportion of their present annual income is spent by the two groups of British industry upon research and development. The traditional ones, iron founding, machine tools, shipbuilding, textiles, coal and transport are all significantly less devoted to inquiry than are the newer ones: chemicals, electricity, aircraft and non-ferrous metals; whereas, for example, in 1955 chemicals and oil-refining each spent about 8 per cent on research and development, machine tools and shipbuilding spent hardly more than 1 per cent. This is, essentially, the difference between the first industrial revolution and the second, measured by that convenient financial scale, the percentage of total turnover.

The Contrast of Extravagance and Thrift

Yet there is a difference even more important than this between the two groups of industries. It is a difference in attitudes of mind; the traditional industries of Britain themselves created and grew up in an economy of abundance – abundant coal, abundant food, abundant foreign trade, abundant domestic servants, abundant families, abundant manpower, and abundant political influence. We were not concerned then with statistics of world trade. For success came through sheer force, often high-handedly employed; as our national symbol we adopted the lion, the King of Beasts. (Where,

incidentally, does one see the British Lion most commonly today? Stamped on the subsidized British egg, painted on the obsolescent British locomotive.)

An economy of abundance can command abundant force and has little use, or even open contempt, for the subtleties of scientific thought. But the industries that owe their birth and their development to the growth of science think neither in terms of brute force nor of natural abundance; for example, the amount of plutonium available for study to the men who designed the isotope separation plant at Windscale was less than one-thousandth part of an ounce.

The newer industries are concerned with wholly different categories of human interest, with accurate measurement, with logical design, with verifiable experiment, with abstract theoretical argument, with scepticism towards established ideas and, above all, with a free and international exchange of ideas and experience. In their concern to understand what others may be doing they have no fear of disclosing what they may be doing themselves. Whereas the ascendancy of the first industrial revolution was displayed in its conspicuous waste, the triumphs of the second have been recorded in their intelligent frugality; nothing is thrown away before it has been shown beyond all doubt that, in the present state of our knowledge, we can do nothing with it. Such an attitude of mind, athletic, inquiring, self-critical, cannot always remain imprisoned in the laboratory: it must eventually pervade the whole of the industrial organism and, once it has been recognized by the boardroom, management may come forward asking whether it has anything to offer those who make policy; we may even expect that it will assault those last bastions of reaction, the counting house and the treasury.

Those of you with a sense of history will remember that the House of Commons was burnt down in 1834 because of a fire among the tally sticks on which our national accounts were kept, whereas by 1834 not only had the railway started to replace the canal, but Charles Babbage had already designed his computing engine. Nevertheless, in spite of this somewhat hesitating start, I think we can assert with confidence that before we reach the year 2060, even the accountants of this country will be giving serious consideration to the scientific method.

Demands of our Present Economic Situation

I think, then, that we are able to identify, in the subtle influences of science, the primary source of the industrial change for which management, and, as part of management, the internal auditor, must ultimately be prepared.

But there is, within the British economy, a secondary force at work. In its effect upon management, as distinct from technology, it may be more important, in the short run, than the impact of science itself. For, despite all we are told to the

contrary, our central economic problem is to make the most of what we have already got; we may, indeed, never have had it so good, but nobody would regard either the capital development programme of the United Kingdom or its long-term prospects on the international market as other than highly speculative. For example, while the average annual rise in productivity in Britain over the past ten years has been well below 2 per cent, in the U.S.A. it has been over 3 per cent, and in the Common Market countries about 6 per cent; Britain's share of world trade has fallen from 22 per cent to 18 per cent, while Germany's has risen from 11 to 17 per cent. Our consequent need to do as much as we possibly can with our existing resources implies, of course, that the major responsibility lies with industrial management and with its technological and scientific advisers.

So great is this need, and so clearly is it recognized, that we are now committed to a vast expansion of university education in technology and science, since the one resource of which we can make a great deal more than we do at the moment – or have done in the past – is our national supply of intelligence. Fortunately, we can make fairly rapid progress in this quarter over the next generation and the future of professional education is full of encouragement.

Education of Management in Scientific Methods

I say professional education because I am thinking of something wider than the training of specialists such as chemists, physicists, communication engineers or statisticians. If science, with its rational parsimony, is going to be brought fully to our aid, then management must cease to regard it as a technique, or even as a set of techniques, merely to effect improvement in this particular quarter, economy in that, and change in another; management must regard the scientific method as it regards the English language, a medium not only for setting out its technical conclusions, but also one in which its own managerial thoughts are formed, developed and expressed.

Management must be no less analytical in what it aims to do, in how it plans to do it and in how it controls the doing of it than is the professional scientist whose services it employs. To understand how this is to be achieved, and to see its relevance to the internal auditor, we must inquire, if only in general terms, what it is that managers do, and will, in the future increasingly be doing. I should like for this to quote from a recent report of the Carnegie Foundation of New York; it is called *The Education of American Business Men* and it has this to say (page 322):

'The need for effective administration has been widely emphasized in recent years. It is related to the growing size and complexity of business in all its elements, to the greater need for conscious planning and control, to the growing difficulties of communication in large and complex organizations.

Management must make decisions, but even more of its time and energy must go into getting the decisions (plans and policies) carried out effectively. . . . Unless recent trends are drastically reversed the status of the manager will become increasingly that of a co-ordinator of diverse interests and pulls in the modern firm and modern society, rather than that of the boss responsible only to the stockholders. This will mean a different framework for management decision making and decision implementation. It will mean new types of decisions and new ways of weighting the variables in making decisions and getting them implemented.'

The Americans, as you are aware, have given a lot of thought and effort to the education of managers, and their views on these matters are entitled to respect; the more so since they have now become critical of much in their existing programmes and practices. What this quotation is making clear to us is the distinction that I have also been trying to draw between the two kinds of British industry: the massive empiricism of the coal and cast-iron age on the one hand, compared with the subtle analysis of our science-based economy on the other. Or the contrast can be put in terms of the American quotation I have just read: it is the boss and stockholder outlook, on the one hand, and the scientist weighing up his problems, on the other.

Management cannot afford to remain merely empirical, relying upon traditional practices, however successful, and its own powers to command, however authoritative; it must, like its technologists, recognize that it can command only after it has first learned to understand. The managerial bull of the nineteenth century is out of place in the china shop of the twentieth century; modern technology has achieved what it has, not by authority, but by an immense and sustained outburst of research and inquiry, to satisfy itself upon the nature of the forces that it is dealing with. It knows perfectly well that nature, in the form of the electron or the attraction of gravity, does not obey the scientist simply because he has a degree from Oxford, or indeed, even from Cambridge; nature obeys him because he has first taken the trouble to understand her. And this understanding has demanded that thousands of men of first-rate intelligence have given their whole lives to trying to do just this, often without thought for their own personal renown or fortune.

Science and Objectivity

But it has also demanded something more. It has demanded that any views, opinions, theories, hypotheses, experimental findings or other products of their thought and labour shall be openly published, and freely submitted to the critical examination of their fellows, of men no less qualified to judge the validity of what they say than those who first announce their new ideas or discoveries. It is this impartial, objective, unemotional, non-financial, disinterested reference of what is claimed by one man to the tribunal of all that is the essence of science and

the sole cause of its ascendancy. It has no time for that which cannot be verified – even although the verification need not be complete, but only statistically significant. What manager would include among his good resolutions for 1961 some similar independent check on all he said and did? It is, of course, unthinkable. Any manager who did so would be regarded by the few as a lunatic and by all as an embarrassment.

But this remains the central paradox of the manager in the modern age. He who claims to observe the scientific spirit in what he does must not only not be afraid of criticism; he must go out of his way to invite it. This is merely respecting what is known as the control function of the manager, when he asks 'Am I doing what I set out to do? Is my policy any good? Am I selling as many as I said I would? Is my quality up to standard? Am I keeping my delivery dates? Are my stock levels what they ought to be? Am I within my budget? Am I, in short, much good as a manager?'

A Biblical Illustration

It is interesting to note that the greatest manager of all time undertaking the greatest production schedule ever planned, namely, Almighty God creating the world, constantly subjected His achievements to such criticism. In the book of Genesis we read how God, having created light in verse 3, satisfied Himself that it was good in verse 4; in verse 10 He similarly satisfies Himself about the division of the waters from the dry land; in verse 12 about the quality of the grass, herbs and trees; in verse 18 about the powers of the sun, moon and stars both to regulate time and to illuminate the sky; in verse 21 about the supply of whales and sea birds; in verse 25, about the living creatures of the earth, including cattle and the creeping things; and in verse 31 there is the final audit:

'God saw everything that He had made, and, behold, it was very good.'

In these seven references, crowded into thirty-one short verses, we have, I suppose, the very earliest record of the fundamental quality of scientific management: to inquire whether what one has achieved is what one intended to achieve, or even to question whether what one has set out to achieve is worth achieving.

THE PROBLEMS OF MANAGEMENT CONTROL

Practical Problems of Control

Just as the disinterested test of one's theories is the power behind the scientific method, so does the control function of management provide the final criterion of its validity. A major problem among managers today is to develop improved methods of control, so that the effectiveness of their policies and the hindrances to their fulfilment can be known as clearly and as quickly as possible.

I am not suggesting that all we need is just more managers breathing down our necks, for no proverb

is as true as 'Never show a fool half-finished work'. But we certainly need a better understanding of what is going on at the operating level, on the factory floor, at the coalface, in the hospital ward or out in the field where the consumer makes his demands. We need better information systems; we need them to inform us on quite new aspects of our activities.

Suppose, for example, we were permitted to examine the stock control systems of a dozen large firms drawn at random. In how many of them would we expect to find an integrated system of control, based upon the logical optimization of total cost? Indeed, how many managements would know what the requirements of such a system ought to be, and, for example, with what information it should be supplied? I doubt if any single one of the twelve could examine the structure of its stock control system with the perception that its most junior chemist would bring to testing the quality of its standard purchases. Or which of them could both explain the system by which their machines were loaded and demonstrate that, within the present operating limits this was the most effective system that could be devised? These are not academic questions.

We are all aware of the trend towards higher manufacturing costs and longer delivery times visible all over British industry – even although the firms concerned have been able to suggest both their own prices and their own delivery dates; it is, in part, the explanation of our declining share of world trade. There is almost an inevitable law: jobs over a million pounds cost twice as much as was estimated and take twice as long to finish. These may be partly errors of forecasting or of specification, but they are also errors of control. We need generally in British industry a better understanding of how to evaluate what we are doing; this is partly because we must improve our technical communications between planning and executing, but it is also because of a widespread failure to recognize the importance of the control function as such.

Of what use is it to talk in terms of computers, or even punched cards, if there is not only no logical system of control to attach the computer to in the first place, but no adequate recognition of the control function as a cardinal management responsibility? No doubt the availability of the computer will bring home these opportunities for improved control, but a parallel change in managerial outlook is no less necessary than the ironmongery itself.

Is the internal auditor already converted to the need? To what extent will he, as the man on the spot, feel able to ask the question, 'Besides having done this job honestly and with proper authority, do you think it was a job worth doing?' Is he the right person, or one of the right persons, to help in the evaluation of what management is trying to do?

Control of Expenditure

There is, I suppose, a sense in which it is, or should be, improper to suggest that auditors, whether

internal or external, do not control enough, since they spend their lives doing nothing else. But their control is, at present, of a very final form, perhaps too final, in the sense that the role of the criminal court is too final in exercising control over our behaviour. As you are perhaps aware, one cannot elevate the tone of a nation's life by such activities as those of the prosecuting counsel alone; one must start much earlier.

Likewise, our need in industry is for more knowledge of how we are getting on long before the final day of reckoning arrives. To be satisfied, as the external auditor must be, that the firm has a watertight financial system and that it possesses the assets it claims to possess is one thing; to be satisfied, again, that this system is properly respected and that the internal auditors are doing their job is another; and to audit vouchers, to check their classification and to draw up periodic compilations under the prescribed heads of account is something else altogether. But all of these tell us only *part* of what we need to know.

We should inquire about our progress, our assets and our liabilities not merely to satisfy ourselves that everybody is keeping his fingers out of the till, nor that the stamps are being used for purposes other than sending off Friday's coupons. We need to know not only that the items held on the books of the company are still there, but also that they are being profitably used; we need to know not only that we are paying salaries to persons who in fact exist, but also that they are giving value for what they receive; we need to know not only that the value of our stocks and work in progress is such and such, but also for what reasons they stand at the levels they do and whether these could not profitably be reduced; we need to know not only that the bills we paid to such-and-such a customer for such-and-such supplies or services were in accordance with our authority to pay them and were properly receipted, but also whether the supplies or services were, firstly, worth what we paid for them, and, secondly, necessary to the overall strategic policies of the firm.

What is more, we want to know all of this, and a great deal more, much sooner after the event than most costing systems now tell us.

Agents of Managerial Control

There is no doubt that, in theory, those who make and order policy should also be directly responsible for the control of it. But, as the extract from the Carnegie Report as well as our own experience show, the complexity of modern industry demands that the total task be partitioned among independent specialists. The firm in which one man can personally direct and be responsible for all that goes on still, of course, exists; there are, for example, about 70,000 in the building trade alone, but these are hardly typical of our economy and will become increasingly less so.

Although the growth of control specialists has been fairly steady for over a century, since the first

appointment of safety inspectors in coal-mines, there are still very large numbers of firms that have few systematic checks upon what they are doing other than through the audits of their accounts, both statutory and otherwise. Although the range of control specialists has been greatly extended since the appointment of mines and factory inspectors, or of ship surveyors for the mercantile marine, there is still little in the way of efficiency measurement in the majority of firms.

The three commonest forms of control, of most use to current management, are safety inspection, statistical quality control and standard costing; some sophisticated concerns have budgetary control, some have systems of sales control, some of inventory and stock control, and a few are provided with elaborate networks of instrumentation for measuring the consumption of physical entities like steam, electricity or compressed air.

Rise of Work Study and Operational Research

About ten years ago, as part of the general move towards raising the productivity of British industry, there began what has since proved to be a sustained interest in work study. This is hardly a system of control, although any examination of the tactics and processes of productivity, and in particular the contribution made to them by the workers which is in general what work study pretends to be, must include recommendations to the management of the means whereby the success of any suggested changes may be judged. Work study is essentially a logical analysis of current productive processes, even although what is finally produced may be no more than a service, such as the issue of stores or the completion of records.

To the extent that work study is in fact logical, in that it inquires what the process is intended to achieve, analyses the series of operations by which the achievement is secured and makes feasible recommendations for improvement, the collective activity may be called scientific, and the staff that prosecute it are entitled to a high and honourable place in the counsels of management. When, further, the subject expands its horizons and, under the name of operational research, begins to examine not only how certain lines of policy are carried out but whether these are the lines of policy best suited to the present resources of the firm, it has become a major organ of management. If the subject is pursued by men of ability the operational research unit may become nothing less than the general staff of the organization, advising the responsible management upon all its major moves, supporting all its advice upon a logical framework of observable fact and demonstrable possibility. It may be through the channels of operational research that the methods of science actually penetrate into the policy-making centres of the firm.

THE CONTRIBUTION OF THE INTERNAL AUDITOR

Source of Initiative

I have now said something about the long-term changes that are taking place in British industry, and something of the consequent stresses that are set up in the fabric of management. I must now suggest what kind of response all this should evoke from the internal auditors themselves. And may I begin this by suggesting that whatever part you are going to play will be largely determined, not by what management expects of you, but by what you can exhibit to the managers? In auditing as in everything else, supply creates demand. It is the law of supply and demand, not of demand and supply; and if management, as I believe it to be, is now being pushed to the limit of its resources to keep abreast of its own problems, it has no time to sit down and work out what kind of salvation it would prefer to another. What management needs is ready-made help. Such help, if in evident supply, will also be in immediate demand.

My first point is, therefore, that, if your profession thinks it has anything to offer, it must take the initiative and offer it; it must not expect the approach to come from management.

Policy of The Institute of Internal Auditors

Your problem is, of course, to offer fresh help without ceasing to do what you are already doing. It will still be necessary to set one rogue to catch another; your relations with the external auditor and with the chief accountant will remain unchanged; decisions as to what shall be the audit programme at any given time, or what the complementary agreement with the external auditor, will be taken as before. You will still have to see to it that the number of imprest accounts, or of points at which revenue is collected, are kept to the absolute minimum; there must always be independent safeguards when the money of a third party changes hands, and these safeguards must remain in your hands.

I think your place in the future depends upon your demonstrating that you can accept new responsibilities without resigning any of your present ones; in this I am not saying anything that is new, since you have said it already yourselves. I am quoting from a statement of your own Institute:

'The internal auditor should be concerned with any phase of business activity wherein he can be of service to management. The attainment of this . . . should involve . . . reviewing and appraising the soundness, adequacy and application of accounting, financial and operating controls.'

I believe this statement to embrace in a few words everything that I have been saying this morning. But in what way can an internal auditor review or appraise, for example, an operating control, say, for the sake of argument, the system of governing the amount of

stock held in the finished goods warehouse? Or for distributing drugs, dressings and other supplies round the twenty wards of a hospital? Or for feeding 10,000 school children a day in some county borough in the West Riding? Let us look at some of these in detail.

Some Specific Illustrations

The value of industrial stocks of all kinds – materials, fuel, work in progress and finished goods – held in British industry at the end of December 1959 was estimated to be £4,796 million, measured at the 1954 value of the £. This is an increase of about 22 per cent over the value of the stocks held in December 1955, again measured in 1954 values. But while we were accumulating stocks at the rate of 5½ per cent per annum, our gross national product was rising by only 1·4 per cent per annum, namely, from £16,242 million in 1955 to £17,158 million in 1959, both incomes being measured at 1954 prices.

There may be some people to whom so great a rise in the stock level is a source of consolation. But business does not flourish by accumulating stocks; depreciation, storage, insurance, interest and so forth all have to be met. If we assume that the only holding costs are the interest charges, we see that the cost of keeping so vast an accumulation is about £1 million per working day. This is a tremendous sum of money, equivalent to about one shilling a day per wage-earner. Since there are charges other than interest, the cost is nearer two shillings. What is more, the stock level of British industry is rising four times as fast as the wealth that our economy is producing. And you all know that, since the whole is equal to the sum of the parts, the position of the average firm must be that of the nation as a whole. The daily cost of stocks alone probably exceeds the most magnificent fraud that any of you could hope to detect in your entire professional careers. Is this not an example of where, in the words of your own Institute, there is scope for 'reviewing and appraising the adequacy of operating controls?'

In my view it most emphatically is. Before I suggest how, let me quote two further illustrations. An auditor of my acquaintance used to check vouchers for a firm that sold office requisites: typewriters, calculating machines, staplers, ribbons, adhesive tape and so forth. He had done this for several years and about 20,000 vouchers a year had to be sampled; two years ago, when the profitability of the firm came under question, it was discovered that such was the variety of items sold, and of the values of the individual orders, that on over 60 per cent of its transactions the firm was losing money. The cost of purchasing, holding, dispatching and invoicing three orders out of five was actually greater than the profit; on about one order out of five the invoicing cost alone was greater than the profit. How often does an audit prove that you are not being swindled and yet conceal your inevitable bankruptcy? Can any self-respecting internal auditor say that he is not

concerned with these broader issues? He cannot escape them. Indeed, all known studies of the cost of producing or offering for sale the range of variety handled by most firms shows that at least 10 per cent are dead losses (not even loss leaders with supposed publicity value). Is this again not an ever-present opportunity for 'reviewing and appraising the adequacy of operating controls?'

A third example within my experience should suffice. An economical domestic supervisor in a Lancashire hospital set out to save money by turning the sheets sides to middle after about four years' wear. A short study of what she was doing showed that the labour cost was almost twice as great as the value of the extra life that, on average, was expected from the rejuvenated sheet. Is this not another illustration of the need to appraise the operating controls? It may fall at a more humble level than the 12,000 invoices or the £1 million a day in interest charges on industrial stocks, but it is as good an example as I need to make my point.

You will, I hope, see that the contradictions of these three examples all arise because nobody concerned in each of them seems, as it were, to hold all the cards. The manufacturing superintendent presses for high stock levels as a safeguard against run-out risks; the sales manager wants to be able to offer any customer anything he may think of; the domestic supervisor feels only the professional pride of her office. Not one of them understands their situation in terms of managerial control, in terms of the total efficiency of the operation. Nor is this all. In the vast majority of firms there is no way in which this synoptic view ever could be taken, short of the introduction of industrial consultants, the appointment of a work study officer or the establishment of a system of standard costing.

Freedom and Status of the Internal Auditor

I believe that this is the opportunity for the internal auditor. No other member of the staff is so well placed as he to do the job. By tradition he is free to inquire at all points of the undertaking; he sees the organization not only through the entries on an inventory or the figures on a ledger, but across the floor of the shops and through the eyes of the foreman. He has to know a lot – perhaps too much – about human nature; he is used to dealing with members of the firm over a wide range of levels, from the purchasing officer to the girl on the till in the canteen.

From the very range of his activities the internal auditor is less likely than any departmental specialist to believe that what is done cannot be improved upon; he certainly should find it easier to ask, not only himself, but also others, the reasons for such-and-such jobs to be done, not in this way nor in that, but to be done at all. If he has his wits about him he is already, of course, expected to notice whether three stores in the same factory are independently holding precisely the same article under at least three (often more) different-styled numbers. It is a big man who

will then ask, not just why this is so, but why there need to be three stores at all. But this and nothing short of it is what is needed; it is no more than your declared policy made effective: 'appraising the soundness of the operating controls . . . '.

I am aware that the proposal to elevate the internal auditor in this way will encounter resistance, or, more commonly, ridicule. It will be suggested that I am telling the ledger clerks to set up as economic advisers. This, I think, would not be a bad way of putting it. In the last few years we have seen the rate-fixers become the work study officers; in the last century the barbers have climbed right to the top and become the surgeons. Every profession has to begin somewhere. Nor am I being just fanciful in what I am now suggesting. At least one very large local authority is sending to our college the whole of its internal audit staff for a three months' course in systems analysis and work sampling so that they may learn how to evaluate a process as well as know how to examine its financial records.

Additional Skills of the Internal Auditor

What are the main qualifications needed by the internal auditor to accept these new responsibilities? There is, of course, the basic need to understand what the business is trying to do. Here I mean more than whether it is trying to make, say, bicycles rather than confectionery; all firms should have some overall manufacturing policy, for example, to improve quality without increasing price, to expand output by intensive advertising or by improving service to the customer, to reduce variety by simplifying design and so forth. This should be known to anybody trying to exercise control within the firm.

The auditor should also be familiar with the main structure of the information services within the firm: who is supposed to know about what? And also with the managerial structure: who is supposed to take decisions about what? He needs these as an opening balance, so to speak, for an important part of his new job will be to suggest how information and decision should be better matched.

Then there are several purely technical needs, some of which he will no doubt possess already. He should, for example, know something about statistics, or the science of variability; in particular, he needs to know the properties and use of samples, because, in a task so prone to boredom as checking a thousand vouchers, the likelihood of effective error is less in examining thoroughly a judicious selection of, say, 200 than in falling asleep over the lot.

Structure of Control Systems

A third need of the auditor is to understand the basic principles of method study; the concept of control demands that one shall know not only what the process under review is trying to achieve, but also its essential form or structure for achieving it. How does it all fit together? This is what method study is about, and the chief internal auditor of the local

authority to whom I have already referred is right to ensure that his staff have mastered its principles.

Fourthly, there is what will come only with experience and further study: a facility to grasp the meaning of the form or structure of the process, to know what information is needed before one can pretend, in your Institute's own words, to 'appraise the adequacy of the operating controls'. For this one must have friends in other departments: to bring stocks under control one needs, for example, four items of information that may be drawn from four different sources. One must know the holding cost an estimate of the run-out cost, the pattern of variability in demand and the cost of placing a new order or of setting up for a new batch.

Here, I think, a good internal auditor has something in his favour: the difficulty of the work I am now describing lies not in the subtlety of calculation, but in the extreme reluctance of people to supply the primary facts – even if they know them. To induce people to become so fond of you that they positively fall over themselves to supply you with information is a piece of magic revealed only to internal auditors!

Some Modern Techniques

There are one or two quite modern developments in the science of managerial control of which, I think, we are going to hear a lot in the future. One is called the 'learning curve', the other the 'management ratio'. The first depends upon a discovery made in America about the progressive increase in operating skill that comes with experience. Just as the world's mile record goes down and down, so the time (and thus the real cost) of a firm to make such-and-such a product should also go down over the years. When all outside changes have been allowed for, in costs of wages, raw materials, fuel and power, transport and so forth, the firm should still be lowering its own real costs as it learns to do the job better from year to year. The manufacture of a motor-car now consumes but one-tenth of the man-hours that it consumed in 1925, simply because the motor industry, like the milers, has learned a little with experience. It has now been shown that this progressive real improvement should be detectable everywhere in industry when the masking effects of other price changes can be allowed for, and any good control system should seek for it.

Another control device is the system of management ratios. A number of firms in the same industry agree to send to some central point – such as a federation of which they are all members – the ratios of certain key costs or values within their own firms; such ratios might be that of work in progress to finished stocks, or of annual turnover to capital employed, or of added value to total wages. These ratios must be distinguished from purely technical measures, such as the number of loaves made per sack of flour, or pounds of steam generated per ton of coal burned. It is the responsibility of the technical staff to have regard to these. About fifty management ratios throw useful light upon the logic of the firm's

overall performance, and if one knows these ratios for all the firms in one's own line (without, of course, needing to know which firms have which ratios), it is possible quickly to spot where one's own are departing from the general pattern.

Internal Auditor's Final Responsibility

There are, no doubt, other fundamental propositions in the theory of control of which internal auditors should be aware; it would be interesting to prepare a syllabus of principles that could be presented free of mathematical sophistry. But it is not now my job to do this. It only remains for me to say that the internal auditor, in criticizing control systems (or drawing attention to a lack of them), must always preserve his independence – in so far as anybody can be independent when he is on the payroll. Whatever suggestions he may make for improving some particular system should naturally be based upon the most thorough analysis of the existing state of affairs; auditors are always expected to have some grasp of their subject-matter. But it cannot be the auditor's task to accept responsibility for operating the control, because it is important that he should still be free to criticize, not only the accuracy of the information that it employs, but also the use that is made of it.

The anti-scientific manager may find it fashionable to talk about his quality control system, but he might be embarrassed to have to act upon it if either he did not understand it or could not handle its practical implications. The mere existence of paper schemes, too, guarantee nothing but their cost and they may positively hinder a manager by unprofitably consuming his time. It is, moreover, often easier to start a control system than to maintain it; a control system, too, can be overdone and the time arrive to get rid of it. The auditor must always remain free to point this out and to say this is to ask where he should be located in the management hierarchy.

In America, where most big firms are provided with a controller, an official of the rank of vice-president to see that the declared policies of the firm are in fact carried out, the place of the internal auditor is clear. There is also something to be said for separating him from the chief accountant where, at the moment, he is usually to be found. I am told that some people can grow to tolerate even accountants, but there should never be any suggestion of the internal auditor thinking that he has anything in common with them. He must, like the famous Cockerton, be free to criticize the accountant along with everybody else. Indeed, the real strength of the auditor's position should be this: that while in theory he is anybody's enemy, in practice he is everybody's friend. Perhaps he is most suitably attached to some small central unit like the office of the economics adviser, or of the assistant to the chairman. The point deserves more than a little thought if the declaration of your Institute is to become effective. And the more effective it becomes the more important will your location become, too.

Weekly Notes

Municipal Treasurers' Examinations

IN the examinations of The Institute of Municipal Treasurers and Accountants held last May, a total of 855 candidates sat, of whom 333 (39 per cent) were successful. In part A of the Final, there were 287 candidates of whom 110 (38 per cent) passed, compared with 80 successful candidates (36 per cent) in the November 1959 examination. In part B, there were 204 candidates of whom 87 (43 per cent) were successful; in the November 1959 examination 55 (41 per cent) passed. A total of 364 candidates sat for the Intermediate and 136 (37 per cent) passed, compared with 94 successful candidates (37 per cent) in the November 1959 examination.

Places and prizes will be awarded on the combined results of these examinations and those to be held next November. The names of the successful candidates in the two parts of the Final examination, together with a summary of the results, appear elsewhere in this issue.

The A.B.C.C. and Company Law

THE Association of British Chambers of Commerce set up a special subcommittee, under the chairmanship of Mr Samuel Hogg, F.C.A., to prepare its evidence to the Jenkins Committee, and this evidence has been approved by the Council of the Association. It is very lengthy, covering all the twenty-eight subject-headings circulated by the Jenkins Committee, and is a very interesting document indeed. It was released for publication on Monday.

On a number of topics the Association appears to see eye to eye with the Federation of British Industries, whose evidence we reviewed last week. Like most other informed witnesses, the Association sees nothing wrong in take-overs as such; it describes them as a corrective for the under-use of assets. Again, like most other witnesses, the Association is concerned to see that shareholders are given proper information and sufficient time in which to consider it; circularized facts being supported by an auditor's certificate. Directors should satisfy themselves, before recommending the bid, that the bidder has adequate funds available. Recent events provide a compelling example in support of this recommendation. The Association thinks that if 50 per cent or more of any class of shares is acquired the remaining shareholders should have the right within a limited period to demand the same terms.

The Association makes some useful suggestions for the protection of minorities; and points out the deficiencies of Section 210 of the Companies Act,

1948, as construed by the Courts. Its memorandum includes an appendix on American practice in cumulative voting, whereby a minority may ensure that it secures the election of one or more of several directors. In this country, of course, where the articles are in common form, the holder of a 51 per cent majority can appoint the whole board, the minority being thus unrepresented. Another suggestion is that anyone owning 10 per cent or more of the shares of any class should disclose the fact to the directors. The memorandum concludes with a most interesting appendix on the functions of chambers of commerce, and on the control of the use of this title.

Unit Trust Law Reform

MR IAN FAIRBAIRN, the chairman of Municipal and General Securities Co Ltd, has submitted an impressive memorandum to the Jenkins Committee on the subject of unit trusts. He makes a strong case for the adoption of the company form for this kind of investment medium. The existing requirement that there shall be both trustees and managers means that the investor is paying for two sets of functionaries whose services could well be combined: in company law, investors are content to allow the directors to perform the dual role. The company form would also ensure that managers acted only as agents, not as principals, in transactions in underlying securities and units. The units themselves can be made marketable on the stock exchange.

Mr Fairbairn would abolish management funds, which he says are unnecessary and add to the cost to investors. He would also prohibit the payment of commissions to investment agents such as stockbrokers, solicitors and accountants. He says this practice has led (i) to investors being deceived into thinking that they get agency services free, and (ii) to agents having their advice warped, so that it is not given with only the client's interest in mind. Moreover, he says, it forces investors to pay for an agent even when they do not employ one, in which case the managers either retain the commission or put the business through their chosen broker 'who does practically nothing for the investor'.

Estate Duty on a Partnership Share

THE estate duty practice of refusing reduced rate relief on partnership assets where these do not pass *in specie* was judicially disapproved this month. On the death of Mr Herbert Seabury Hunt Burdett-Coutts a share in a farming partnership passed to his son. The partnership assets included plant and machinery valued at over £6,000 and the executors claimed relief under Section 28 of the Finance Act, 1954, under which a reduced rate of duty is payable on such assets. The Inland Revenue argued that, having regard to the terms of the partnership, what passed was the right to a sum of money, not the specific assets. Mr Justice Buckley rejected this argument.

Prime Minister on Exports

IT is a measure of the Government's preoccupation with the level of this country's exports that the Prime Minister himself should address an invited audience of business men on the subject at Church House this week. The meeting was organized jointly by the Association of British Chambers of Commerce, the Federation of British Industries and the National Union of Manufacturers.

Mr Macmillan said that he did not propose that there should be a target figure. He thought that there was scope for continuing and increasing the drive for increased efficiency and for keeping delivery dates and he made a special plea for an export effort by smaller concerns. During the next few months Government ministers will tour the country encouraging firms to export more.

The effect of this type of official exhortation is difficult to assess. There is some cachet in being one of the chosen 400 asked to attend but much depends on this not being an isolated effort but part of a general scheme in which official economic policy and co-operation by the trade associations in organizing local export drives must play a key part.

Clerical Salaries in 1960

THE ninth survey of clerical salaries by the Institute of Office Management (formerly called the Office Management Association) has now been published. The report prepared by Mr O. G. Pickard shows that the sample is based on 87,000 clerks of whom about 65 per cent were women. For the first time separate returns were made to show the split-up of occupation between the women covered, and these were 23 per cent shorthand and audio-typists, 14 per cent copy typists, 17 per cent machine operators and 46 per cent other clerks.

The tables show an increase over a two year period which was comparatively free from inflation, and salary increases therefore represent real increases in income. Over the last two years the biggest increase in salaries was among women at the lowest and highest end of the scale; the largest increases being recorded in grade A and grade B work, which is the least skilled and responsible, followed by women in grade F. The biggest increase among male clerks was in grades B and E. It is noticeable, so far as female clerks are concerned, that shorthand typists start higher on their job scale (grade C) than do other female clerks and that their median salary is higher at grade E than those of other female clerks. The lowest paid group, to judge from median salaries, are machine operators who are paid consistently less than shorthand typists at each grade and even less than copy typists in grade F. Ordinary junior female clerks are on the lowest scale which explains why so many girls dislike being classified as ordinary clerks without any special skill.

So far as geographical variations are concerned, the highest salaries for male clerks in grades C to F are paid at Merseyside and Tyneside. The lowest

salaries are paid in west Yorkshire. Among female clerks the highest salaries are paid in greater London and at Tyneside and the lowest in west Midlands and on Clydeside, with west Yorkshire and south-east Lancashire not very far behind. Within greater London the highest salaries are paid to male clerks in the City of London and in the case of female clerks above average salaries are paid in the City and in the West End.

The general survey does not cover articulated clerks nor temporary or part-time clerks.

Personal Savings

THE growth of personal savings has been a feature of the national income figures for the last ten years or so. The big increase is due in part to increased confidence (or less lack of confidence) in the value of money and the direction of the economy by a non-Socialist Government. Compared with the immediate years after the war, it is the private individual and companies which are doing the bulk of saving, and not the central Government.

The main sources of saving during recent years have been the undistributed incomes of companies (including depreciation), personal savings and, a long way behind, the central Government and local authorities. Some additional statistics of personal savings were made available in the June issue of the Treasury's *Bulletin for Industry*.

Since 1948, personal saving has grown much faster than personal incomes. A large part of this saving has been invested in non-financial assets such as stocks and fixed assets of unincorporated businesses and new premises. So far as financial assets are concerned, the big increase has been in National Savings and in life assurance and superannuation funds. By 1958, National Savings were higher than building society shares and deposits, and the gap further widened in 1959 when there were big increases in the holdings of Defence Bonds and Savings Certificates.

The Iron and Steel Board

A PAMPHLET has been issued by the Iron and Steel Board which is being circulated in industry, to Government organizations and to academic institutions. It sets out the character and functions of the board. It points out that the aim of the Iron and Steel Act of 1953 is to combine private enterprise with public accountability. Private concerns compete against each other under the supervision of an independent statutory authority. The board, however, is not a Government department although its members are appointed by the Government and its periodic reports are submitted to Parliament. It is financed by levies which it is empowered to make on the industry but it does not own any part of the industry. Its functions are mainly those of a statutory authority rather than those of an advisory body.

Among its main functions is the control of prices. Prices have been changed by the board on twenty occasions since it was established. Some of these

changes have arisen from the board's constant review of the situation, some as a result of the movement in raw material prices, such as coal, and some as a result of representations by industry or consumers. Another main function is to keep under review the capacity of the industry and to ensure that it can meet demand. This involves the board in forecasting future demand for iron and steel. Once it has estimated a demand it has to keep the capacity of the industry under review. All major schemes of development or replacement, that is those at present costing over £100,000, have to be submitted to the board for consent but this does not include the iron and steel founding industries. So far as short-term

forecasting is concerned, the board reviews current problems of supply and demand every quarter at a meeting with the British Iron & Steel Federation, the British Iron and Steel Corporation Limited, B.I.S.C. (Ore) Limited and the Ministry of Power.

Other duties include keeping the industry's research, training, safety, health and welfare arrangements under review, as well as joint consultation between management and employees. Its general responsibility to promote efficiency carries with it the task of examining any arrangements which may be restrictive of competition and it is in liaison with certain international bodies, including the European Coal and Steel Community.

This is My Life . . .

by An Industrious Accountant

CHAPTER 34

THEY say that cleanliness is next to godliness, but our recent search for that estimable virtue only created havoc in our organization. Being old-fashioned in outlook, the habit had been to equip our washrooms with old-fashioned appliances – solid, yellow lumps of soap and stout roller-towels – whose prototypes had served the staff's parents and grandparents before them. The office manager is in charge of personnel amenities, and what was good enough for his dad was good enough for him.

So we were surprised when our deputy chairman suddenly inveighed against such ancient survivals and demanded modern standards of hygiene. Apparently his niece is a personnel officer in some big firm and when he showed her round our premises she had a field-day. She laughed patronizingly and continuously, and called him 'grand-uncle' before the other directors. His vanity suffered; hence his zeal for reform.

As the firm's accountant, I had to protest against the cost. He wanted new towel containers with closely packed paper once-only oblongs and glass bottles with ejectors for liquid soap – and money was no object. The chairman, having recovered from his initial shock at such extravagance, concurred benevolently and the equipment was promptly installed. Then our troubles started.

The bottles were set too high at first and the soap ran down everyone's wrists; then it congealed in the containers; so we had to have lighter soap and new insets. Then the towels were abused by our junior staff, and never a day passed but the cloak room floor was strewn with wet and dirty papers in untidy heaps. So we scrapped that effort. Instead came a box with an eternal clean towel which pulled down length by length.

It looked impressive, so the chairman came to test

it. Unfortunately, when he tilted the soap-bottle the top came off and he got a half-pint of thick, treacly, purple liquid down his sleeve. When he pulled at the towel, it stuck; so his incensed deputy threw his weight on it and it tore across: the box fell on the floor and metal plates flew off with an indignant rattle. The chairman just stood astounded with his two hands held high, dripping soap suds and torn towel, looking like a ballet dancer about to take off. It was quite a picture.

So we scrapped them all, issued each of the staff with a clean towel and a cake of scented soap, replaceable fortnightly, free of cost, and hoped for the best. Personally, I thought the result was terrible. Senior officials were wandering down the corridors with towels across their forearms like waiters, and our bonny Scots sales manager, a humourous type, brought along a big tartan towel and shook hands with visitors with a wet soapy palm.

The deputy chairman, by poetic justice, was the next victim. Some apprentices were fool-acting noisily in the corridor, throwing soap at each other; he came out in annoyance to remonstrate and slipped on a loose cake. In falling, he brought down a full fire-bucket. My typist came out simultaneously and got a sudden soaking; she naturally screamed somewhat, for which I can hardly blame her in the circumstances. The noise brought everyone out of their rooms to investigate and apparently many quite unfounded comments were overheard.

Personally, I acted on this occasion with a masterly and decisive sureness of judgement which can be recommended to all members of my profession. After one glance at the shambles, I slipped promptly out of my back door, down to our remote payroll section; and in discussion of overtime rates with the staff, was fortunately absent when our director found his voice again.

Yesterday, the new gadgets were suddenly removed and replaced by stout, old-fashioned roller-towels and cakes of old-fashioned yellow soap, without comment. The deputy chairman goes round with a face like a thunder-cloud, and I for one, don't propose to open a discussion with him.

Finance and Commerce

Temco

THIS week's reprint gives the 1959 accounts of the Telephone Manufacturing Co Ltd, which were earmarked for an appearance in this column some time before the company became top-line news in the bid for its control. As will be seen from the figures, the statement of profit and loss moves down to a group profit, before taxation, of £46,832. To this is added £9,536 on revision of prices on contracts in respect of previous years, and from it is deducted £9,151 for profits tax and £48,276 for income tax. The net result of all this is a loss of £1,059.

How this comes about is told by the chairman, Mr Chas. H. Jackson, F.C.A., in his statement with the accounts. The review takes in the figures down to the £14,615 retained in the subsidiaries' accounts leaving, Mr Jackson points out, a net loss of £35,059 of which £31,875 is accounted for by taxation, 'which seems a large sum to provide when in fact the accounts show a small loss'.

The reason for this anomaly, says Mr Jackson, lies in the valuation of stock and work in progress which has increased during the year by £182,922. It has always been the company's practice, he explains, to write off all expenses in the year in which they are incurred, and stock and work in progress is therefore valued at the prime cost of materials and direct labour.

Adverse Conditions

Whilst this is a conservative method of valuation, Mr Jackson continues, 'there is something in the argument that the addition of oncost to work in progress gives a fairer result from a strict accounting point of view, and some years ago we had to give way to the Inland Revenue on this point. The charge for taxation, therefore, takes into account the amount added for oncost for taxation purposes to the increase in the value of work in progress'.

In considering the question of dividend, Mr Jackson says the directors have had in mind the conservative distribution of profits in recent years and the possibility that the period of adverse trading conditions is approaching its end. The full brunt of the adverse conditions, he says, has fallen on the company's chief activity, which is the manufacture of telephone instruments and manual switchboards. The company's home market is essentially the Post Office and the value of deliveries to the Post Office has continued to decline; with the consequent idle capacity in the industry, remunerative export business has become increasingly difficult to obtain.

Pye Bid

The Post Office position is, of course, an unfortunate result of telephone development involved with Government finances, but the White Paper published last March gives promise of arrangements designed to encourage the commercial development of the Post Office by separating its finances from the Exchequer, and by relieving it of the supervision that has handicapped it in the past. As things were, it has been impossible for the Post Office to plan ahead in the manner that commercial undertakings must if they are to organize production runs on a low-cost basis.

Less than a week before the company's annual general meeting on July 4th, the board of T.M.C. announced that Pye Ltd, the radio, television and electronics company under the chairmanship of Mr C. O. Stanley, a staunch defender of private enterprise, would be making an offer for the T.M.C. capital following talks between the two boards. A few days later the terms were announced: four Pye 10s ordinary units for every five T.M.C. 5s ordinary shares which, on market prices at the time, valued T.M.C. at 13s 6d compared with the previous 9s 3d. However, Mr Stanley and Mr Jackson immediately had to reckon with the combined force of the giants in the telephone manufacturing industry, the consortium of seven leading manufacturers - Associated Electrical Industries, Automatic Telephone & Electric Co, Ericsson Telephones, General Electric Co, Marconi's, Plessey and Standard Telephones & Cables. The result was that the T.M.C. board had also to advise shareholders, in the same breath, that Morgan Grenfell & Co, the merchant bankers, had been instructed by the consortium to make a bid of 12s 6d a share in cash.

Since then the consortium's bid has been raised to 15s, a level said to be 'final'. Meanwhile in the stock market T.M.C. shares have been standing well above the worth of both bids and shareholders have taken the obvious way out and have sold on the market at prices up to 17s 9d. The consortium has admitted to control of 12½ per cent of T.M.C.'s share capital but Mr Stanley claims to have a larger holding and also to have powerful shareholders on his side.

Elimination

THE directors of The Victory Insurance Co Ltd propose to eliminate the uncalled liability on the company's shares. In the balance sheet at December 31st, 1959, now issued, the paid-up capital is shown at £150,000, 500,000 shares of 16s each having been issued on which 6s a share has been paid. Capital reserves and undistributed profits total £704,349 and, as Sir Leighton Seager, the chairman, says, capital is no longer representative of the assets employed.

He points out that a provision for possible depreciation in investments is made, the amount being deducted in arriving at the published total for investments in the balance sheet.

It is now considered that £200,000 of this provision,

plus £100,000 of certain other provisions no longer required, should be transferred to profit and loss account from which £350,000 would be capitalized in such a manner that the shares of 16s (6s paid) would become fully-paid shares of £1 each.

Resolutions proposed effect this in a series of steps. The first is to capitalize £250,000 to make the 16s shares fully paid. Then the 16s shares are subdivided to four of 4s each. A further £100,000 is then capitalized in a distribution of 4s shares and finally, every five 4s shares are consolidated into one of £1.

Labour Problems

A SEVERE shortage of labour is described by Sir J. Donald Horsfall, chairman of John C. Horsfall & Sons Ltd, spinners, woolcombers, dyers, etc., of Keighley, Yorks, in an explanation of the circumstances that led to a fall in profits from £61,453 to £27,808 in 1959.

It was a year of gradual and continuing improvement in the textile industry as a whole but the revival

in demand came at a time when the company was not in a position to reap full advantage from it. The decision was taken in the early months to effect major changes in layout of certain production departments to obtain smoother and more economical running and in the change-over inevitable losses occurred.

To use the plant to better advantage, a double-shift system was started. When the decision was taken, the labour supply position was favourable but as the months passed, the supply contracted to a 'mere trickle'. Advertising in the local Press had little effect. Pockets of unemployment in various parts of the country were tapped but labour there was mostly found to be immobile. Difficulties were further increased by a turnover of operatives of 'exceptional proportions', and a large turnover of labour increased costs of training.

The result was that at no time since the double-shift system was introduced has the plant been fully and effectively manned and the company is going back to single-shift working as soon as possible to concentrate the labour force available.

TELEPHONE MANUFACTURING COMPANY LIMITED AND SUBSIDIARY COMPANIES

STATEMENT OF PROFIT AND LOSS

Year to 31st December, 1958		Year to 31st December, 1959	
£	£	£	£
	166,564		119,371
	16,634		11,422
	183,198		130,793
	PROFIT ON TRADING OF THE COMPANY AND ITS SUBSIDIARIES		
	Add: Interest and Dividends from Investments		
	Deduct: Emoluments of Directors of Telephone Manufacturing Company Limited:		
	Management Emoluments	13,750	
	Directors' Fees	1,233	
			14,983
	Emoluments of Directors of Subsidiary Companies, not being Directors of Telephone		
	Manufacturing Company Limited		13,992
	Audit Fees		1,219
	Depreciation		53,767
			83,961
18,198			
1,150			
	19,348		
	8,218		
	1,109		
	51,675		
	80,350		
	102,848		46,832
	23,527		9,536
	126,375		56,368
17,538			
			9,151
41,521			48,276
	59,059		57,427
	67,316		(Loss) 1,059
	5,426		19,385
	Deduct: Net Profits applicable to Minority Interests in a Subsidiary Company		
	61,890		(Loss) 20,444
	2,215		14,615
	BALANCE OF NET PROFIT OR LOSS OF THE GROUP		
	Deduct: Net Profits retained in the Accounts of Subsidiary Companies		
	59,675		(Loss) 35,059
224,613			230,006
	Balance brought forward from 1958		1,700
	Provision against Quoted Investments now written back		
284,288	BALANCE AVAILABLE		196,647
	Deduct: Appropriations:		
	Dividends, less Income Tax:		
	Interim Dividend of 2½%		
	Proposed Dividend of 5%		
12,938			27,562
41,344			27,562
	54,282		
	BALANCE CARRIED FORWARD IN BALANCE SHEET OF		
230,006	TELEPHONE MANUFACTURING COMPANY LIMITED		169,085
	Proportion of Balances carried forward by Subsidiary Companies (after crediting Provision against		
	Quoted Investment amounting to £800 and transferring £1,925 to Preference Share Redemption		
	Reserve and £5,134 to General Reserve) attributable to Telephone Manufacturing Company		
	Limited		56,796
48,441			
£278,447	BALANCE CARRIED FORWARD IN CONSOLIDATED BALANCE SHEET		£225,881

TELEPHONE MANUFACTURING COMPANY LIMITED.

BALANCE SHEET AS AT 31st DECEMBER, 1959.

1958										£	£	£	
£	£	£	AUTHORISED CAPITAL:								£	£	£
1,000,000			4,000,000 Shares of 5/- each	..	..	..	..	..	..	..	1,000,000	
			ISSUED CAPITAL:										
	900,000		3,600,000 Shares of 5/- each	..	..	..	..	..	..	..		900,000
			CAPITAL RESERVES:										
48,245			Share Premium Account	..	..	..	..	..	..	..	48,245	
2,853			Capital Reserve Account	..	..	..	..	..	..	..	2,853	
	51,098											51,098	
	600,000		GENERAL RESERVE	..	..	..	..	..	..	..		600,000
230,006			PROFIT AND LOSS ACCOUNT—Unappropriated balance								169,085
£1,781,104			TOTAL CAPITAL EMPLOYED										£1,720,183
Represented by:													
FIXED ASSETS:													
467,585			Freehold Land and Buildings—at cost	..	..	..	..	..	..	..	473,322	
121,199			Less: Depreciation to date	..	..	..	..	..	..	..	130,002	
	346,386											343,320	
5,725			Leasehold Premises—at cost	..	..	..	..	..	..	..	5,725	
4,846			Deduct: Amount recovered	..	..	..	..	..	..	..	5,250	
879			Less: Depreciation to date	..	..	..	..	..	..	..	475	
171											179		
	708											296	
515,553			Plant, Machinery, Furniture, Appliances and Motor Vehicles—at cost	..	..	..	..	..	..	..	562,468	
333,816			Less: Depreciation to date	..	..	..	..	..	..	..	360,603	
	181,737											201,865	
	9,292		Dies, Jigs and Moulds at Managing Director's valuation	..	..	..	..	..	..	..		22,604
26,666			Trade Investment—at cost	..	..	..	..	..	..	..		26,666
1			Goodwill, Patents, Trade Marks and Designs—at cost	..	..	..	..	..	..	..		1
	564,790											594,752	
SUBSIDIARY COMPANIES:													
19,228			Shares in Subsidiary Companies—at cost	..	..	..	..	..	..	..	19,228	
18,627			Amounts due from Subsidiary Companies	..	..	..	..	..	..	..	14,151	
37,855			Less: Amount owing to Subsidiary Company	..	..	..	..	..	..	..	33,379	
2,461											687		
	35,394											32,692	
CURRENT ASSETS:													
599,412			Stock and Work In Progress (as certified by the Managing Directors)	..	..	..	..	..	..	..	782,334	
574,574			Sundry Debtors and Prepayments	..	..	..	..	..	..	..	627,808	
107,376			Quoted Investments—at cost	..	..	..	..	..	..	..	107,376	
1,700			Less: Provision against diminution in value	..	..	..	..	..	..	..
	105,676		(Market Value £113,390)	..	..	..	..	..	..	..	107,376	
			Treasury Bill—Government of Canada	..	..	..	..	..	..	..	9,320	
250,000			Deposits with Local Authorities	..	..	..	..	..	..	..
101,802			Cash at Banks and in Hand	..	..	..	..	..	..	..	23,039	
	1,631,464											1,549,877	
Less:													
CURRENT LIABILITIES:													
252,018			Sundry Creditors and Accruals	..	..	..	..	..	..	..	235,513	
			Bank Overdraft	..	..	..	..	..	..	..	95,026	
24,100			Profits Tax to date	..	..	..	..	..	..	..	18,164	
91,836			Income Tax 1959/60 and earlier years	..	..	..	..	..	..	..	53,852	
2,246			Unclaimed Dividends	..	..	..	..	..	..	..	521	
41,344			Proposed Dividend (less Income Tax)	..	..	..	..	..	..	..	27,562	
	411,544										430,638		
	1,219,920											1,119,239	
	1,820,104											1,746,683	
Deduct:													
39,000			RESERVE FOR FUTURE INCOME TAX (Estimated Liability 1960/61)								26,500
£1,781,104			TOTAL NET ASSETS										£1,720,183

NOTES—(1) There are Contracts outstanding for Capital Expenditure estimated at £15,200.

(2) Canadian Currency has been converted at the rate of \$2.68½ to the £ Sterling.

C. H. JACKSON } Directors
P. B. HEALEY }

CITY NOTES

SUFFERING not only from international political fears and home economic uncertainties, the stock-markets are also subjected to the domestic influence of two three-week accounts in succession. Business has been on very narrow lines and while industrial equity values (with the exception of motor manufacturing and distributing shares) have held up reasonably well, there has been, on balance, a gradual downdrift in prices.

The gilt-edged market, meanwhile, has had to contend with the offer of £300 million of Treasury 5½ per cent 1962 Stock and the first news of the offer brought a sharp reaction from which there has been only marginal recovery.

The June trade figures were another 'bearish' influence on the market and it is clear from the Prime Minister's latest exhortations that industry is not to be given any incentive to increase exports. In fact the reverse would appear to be the case. Import liberalization coupled with credit stringency at home provides the official background to the so-called export 'encouragement', to say nothing of the continued refusal of the Government to come to terms with the European Common Market.

It may be admitted, however, that smaller industrial companies fail to make use of, or fail to appreciate, the export financing facilities that the City can provide. Financing and marketing assistance is available from merchant and industrial banking organizations and the smaller units in industry have yet to avail themselves of City services to the degree that they could and should.

RATES AND PRICES

Closing prices, Wednesday, July 20th, 1960

Tax Reserve Certificates: interest rate (29.6.60) 3½%

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

May 13	£4 11s 156d%	June 17	£4 13s 734d%
May 20	£4 11s 169d%	June 24	£5 13s 740d%
May 27	£4 11s 153d%	July 1	£5 13s 614d%
June 3	£4 11s 139d%	July 8	£5 13s 306d%
June 10	£4 12s 179d%	July 15	£5 10s 249d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	5-5½%	2 months	5½-5¾%
Fine Trade Bills		3 months	5½-5¾%
3 months	6½-7%	4 months	5½-5¾%
4 months	6½-7%	6 months	5½-5¾%
6 months	6½-7½%		

Foreign Exchanges

New York	2.80 11/16-81	Frankfurt	11.71 11/16-11
Montreal	2.74 11/16-11	Milan	1743 11/16-11
Amsterdam	10.59 11/16-11	Oslo	20.03 11/16-11
Brussels	140.24 11/16-25 1/2	Paris	13.76 11/16-11
Copenhagen	19.35 11/16-11	Zürich	12.11 11/16-11

Gilt-edged

Consols 2½%	44 1/8	Funding 4% 60-90	87 1/8
Consols 4%	66 1/8xd	Savings 2½% 64-67	82 1/8
War Loan 3½%	60 1/8	Savings 3% 55-65	87 1/8xd
Conversion 3½%	60	Savings 3% 60-70	79 1/8
Conversion 3½% 1969	84 1/8	Savings 3% 65-75	70 1/8xd
Exchequer 5½% 1966	99 11/16	Treasury 2½%	43 1/8
Funding 3% 66-68	81 1/8	Treasury 3½% 77-80	71 1/8xd
Funding 3% 59-69	81 7/8	Treasury 3½% 79-81	70 1/8xd
Funding 3½% 99-04	64 1/8	Victory 4%	92 1/8

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Appointment of Auditors

SIR, - In the leading article in your issue of July 9th, 1960, commenting upon the memorandum submitted by the Council of the Institute to the Company Law Committee, you state, 'A regrettable practice has grown up whereby companies do not appoint individuals as such as auditors, but purport to appoint firms of accountants.' I wish to make it clear that so far as the Council of the Institute is concerned the appointment of firms as auditors is not 'a regrettable practice'. It is a practice which has existed throughout the history of the Institute

and has been followed in a great many countries overseas.

The widespread nature of the practice and the long period during which it has existed are clear indications that it is satisfactory both to the profession and its clients.

It is true that in its memorandum to the Company Law Committee the Council said that where there is a change in the constitution of a partnership doubts may arise regarding the correct procedure under the Companies Act and that although these doubts do not normally give rise to practical difficulty this is not always the case and it therefore seems desirable that the legal position should be clarified. Accordingly, the Council made proposals for that purpose but these were not intended to be, nor indeed were they expressed as, criticism of the practice of appointing firms as auditors.

Yours faithfully,

ALAN S. MACIVER,

Secretary,

THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES.

Moorgate Place, London.

Practitioners and the Revenue

SIR, - At last there are stirrings in the woods (letter from 'Seventeen Provincial Accountants', issue dated July 16th).

Whilst all practising accountants are overworked, and often understaffed, the Inland Revenue gives all the impression of being overstaffed; for example, they work only a five-day week, Inspectors appear to have lengthy annual leaves, and they have time for so much petty trifling as is mentioned by your correspondents. This is an unfortunate state of affairs, and one which has so far not been adequately examined.

The day-to-day problems of provincial accountants are quite different from those of the larger firms in the larger cities. The provincial accountants, many of whose clients are in a small way of business and do not maintain much in the way of clerical staff, are faced with such jobs as keeping the clients' P.A.Y.E. cards and records for him, completing his returns of distribution or production required by the Board of Trade, and even filling in forms of application for retirement pension. Also, of course, the accountant in practice has to run a business and make it pay; he has to maintain his goodwill and be always ready and available to meet every call for assistance from his clientele, whereas the Inspector is usually highly departmentalized and only has to concentrate on a particular line of work.

One big difficulty is the amount of work the accountant has with back duty and investigation cases; although complete schedules may be prepared and submitted, interminable interviews and correspondence seem inevitably to follow, prolonging the matter - often into years - before any final settlement is reached.

At a time of the year when the accountant is inundated with income tax return forms, P.A.Y.E. returns, repayment claims, etc., Inspectors often see fit to have Commissioners' meetings in respect of outstanding accounts. Cases in respect of which appeals have been lodged against estimated assessments and in which the accounts are awaited, should never be listed without prior consultation between the accountant and the Inspector. This procedure appertained with my firm with one district for a number of years, but broke down when a new Inspector came along. I wrote to the Board of Inland Revenue, as a result of which a representative called to see me and after a very helpful discussion, he issued instructions to the Inspector that the previous practice was to continue.

However, there are unfortunately other Inspectors who do not work on these lines.

Another bugbear is the protective assessment; in one back duty case which has been going on for a long time, the Inspector got very heated because a protective assessment was not appealed against within the time limit, although this was only slightly exceeded. No notification or copy of the assessment was sent to my firm who, of course, knew nothing

about it until after the appeal period had expired, despite the fact that all the negotiations in the matter had been with ourselves. If the client is guilty of wilful default or fraud, then such assessments are not necessary anyway.

Unfortunately local groups of accountants are not always as active as they might be; one formed in this City has fallen into disuse; this is probably due to the fact that accountants are so overworked that they have little or no time to organize local groups. It would seem that some Inspectors deal with accountants individually in a very arbitrary and peremptory manner, which can only be met and countered by group action, if this can be organized.

One imagines that the practising accountant is a very necessary part of the taxation machinery and if that is to work smoothly, there must be adequate co-operation. Certain professions seem to get very adequate backing from their organizations (e.g. British Medical Association, Law Society, etc.) but one is not always so conscious of this in our own profession.

Yours faithfully,

PROVINCIAL F.C.A.

SIR, - With reference to the letter under this heading which appeared in your last issue, I think it advisable to examine the reasons why there should be a number of appeals that to any great extent should be heard before the Commissioners, except for contentious issues. Perhaps the following points might be considered:

What has the profession done over the past years to bring its methods into line with modern practice, with regard to office layout, working conditions, filing, introduction of modern machinery, etc., so as to achieve the greatest efficiency?

It is impossible to keep adequate skilled staff, due to the larger salaries that industry can offer, and people will not work as hard as they used to. Practitioners have not been able to increase their fees in anything like the proper proportions. I am of the opinion that no set of annual accounts, which includes the settlement of tax liability, no matter how small, can be profitably done under 30 guineas per annum, when we take into account the visits and the various forms which the client brings in, and the various services which each client requires.

With regard to this type of work, the practitioner is in competition with the unqualified man, and the latter beyond doubt has the advantage. I should like to hear what benefits a qualified man has in this particular field of work.

It would appear that if the accounts are prepared so late, as your correspondents suggest is sometimes the case, the benefit to the trader of knowing, at the earliest opportunity, how his business is working must be seriously jeopardized.

It would appear that the root difficulty to be overcome is the avoidance of delay appeals, and the only way of dealing with that matter is to get the work up to date. Where a practice has been established for some years, this is going to be an awful task to undertake and methods must be found of keeping current work up to date and at the same

time clearing arrears as quickly as possible. Accountants are called in to investigate other people's affairs, but it might be advisable to decline work and spend time examining their own affairs and come to conclusions as to the efficiency of their own offices.

With regard to the questions asked by the Revenue I cannot agree with your correspondents. Generally speaking, the Revenue are quite reasonable. How can a practising accountant know *all* the questions that the Revenue raise, to determine a tax liability. The only way to know this would be to have training as an Inspector of Taxes as well. It might well be that the Revenue asks an odd question at times, but there can be no doubt that they are mostly very much to the point.

The approach to this problem must be constructive and in line with the times. All around us revolutionary changes are taking place and it would appear the same must take place in our profession. The whole question, in my opinion, is bound up with fees which should be such that skilled and adequate staff and efficient methods can be employed to keep abreast of the work and up to date.

In conclusion, I am anxious that discussion of this serious subject should produce some positive result. I refer in particular to your correspondents' request for united action. I suggest that the Institute appoint a committee of inquiry, composed of members representative of the geographical location and scope of practice of its membership. The terms of reference should be the matters raised in this letter which must concern greatly a very large proportion

of the members of the Institute, and also the very urgent and pressing need for registration of the profession.

Yours faithfully,
Leeds. ISAAC BARTFIELD, F.C.A.

SIR, — Their recurring use of the word 'certificate' makes me wonder whether the seventeen dissatisfied provincial accountants whose letter appears in your July 16th issue are misleading themselves. Practising accountants are rarely in a position to *certify* anything and can only *report* their findings, which inevitably encourages questions.

Yours faithfully,
REPORTING ACCOUNTANT.

Sales Manager's Shortcomings

SIR, — The Industrious Accountant (Chapter 32) [July 9th issue] might have reminded his sales manager that the legal definition of a 'sale' includes a monetary consideration known as the price. This price is an essential element of the definition, and a sale is not completed until the goods are paid for.

It is no rarity for salesmen to think that their task is over when the customer takes delivery. To suggest that they have the slightest responsibility for credit rating, or the collection of accounts, provokes a range of emotions from ridicule to consternation!

Yours faithfully,
Pinner, Middx. M. BARRADELL, LL.B., F.C.A.

New Legislation

All new Acts will be noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTES

(8 & 9 Eliz. 2)

Chapter 30: Occupiers' Liability (Scotland) Act, 1960

An Act to amend the law of Scotland as to the liability of occupiers and others for injury or damage occasioned to persons or property on any land or other premises by reason of the state of the premises or of anything done or omitted to be done thereon; and for purposes connected with the matter aforesaid.

Price 6d net. June 2nd, 1960.

Chapter 31: Highlands and Islands Shipping Services Act, 1960

An Act to authorize the Secretary of State to assist persons concerned with the provision of sea transport services serving the Highlands and Islands; and for purposes connected with the matter aforesaid.

Price 4d net. June 2nd, 1960.

Chapter 32: Population (Statistics) Act, 1960

An Act to make permanent the Population (Statistics) Act, 1938, and to make further provision as to matters with respect to which particulars may be required under that Act and as to certificates to be produced on the registration of still births.

Price 4d net. June 2nd, 1960.

Chapter 33: Indecency with Children Act, 1960

An Act to make further provision for the punishment of indecent conduct towards young children, and to increase the maximum sentence of imprisonment under the Sexual Offences Act, 1956, for certain existing offences against young girls.

Price 4d net. June 2nd, 1960.

Chapter 34: Radioactive Substances Act, 1960

An Act to regulate the keeping and use of radioactive material, and to make provision as to the disposal and

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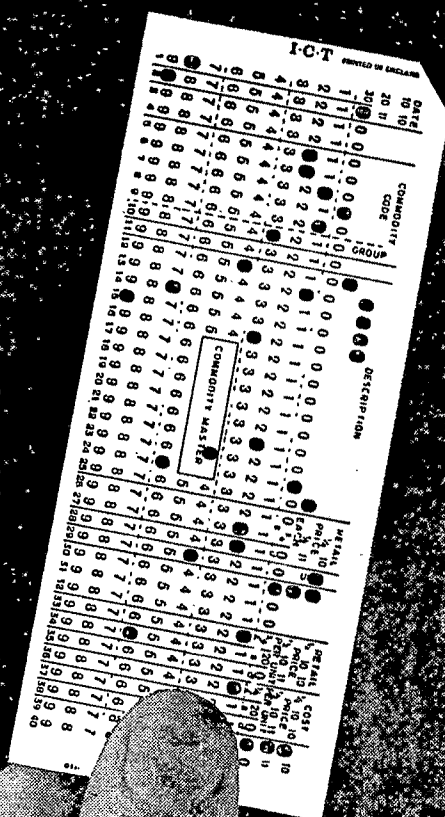
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accumulation of radioactive waste; and for purposes connected with the matters aforesaid.

Price 1s 6d net. June 2nd, 1960.

Chapter 35: International Development Association Act, 1960

An Act to enable effect to be given to an international agreement for the establishment and operation of an International Development Association, and for purposes connected therewith.

Price 4d net. June 2nd, 1960.

Chapter 36: Game Laws (Amendment) Act, 1960

An Act to make better provision for the prevention of poaching.

Price 6d net. June 2nd, 1960.

Chapter 37: Payment of Wages Act, 1960

An Act to remove certain restrictions imposed by the Truck Acts, 1831 to 1940, and other enactments, with respect to the payment of wages; and for purposes connected therewith.

Price 1s net. June 2nd, 1960.

Chapter 38: Civil Aviation (Licensing) Act, 1960

An Act to prohibit certain flying except under a licence or other authority and to repeal section twenty-four of the Air Corporations Act, 1949; and for purposes connected with the matters aforesaid.

Price 1s net. June 2nd, 1960.

Chapter 39: Dock Workers (Pensions) Act, 1960

An Act to exclude the operation of the Truck Acts, 1831 to 1940, and the Shop Clubs Act, 1902, in relation to provisions concerning pensions under the Dock Workers (Regulation of Employment) Act, 1946.

Price 3d net. June 2nd, 1960.

Chapter 40: Commonwealth Teachers Act, 1960

An Act to make further provision for matters arising out of the recommendations of the Commonwealth Education Conference.

Price 3d net. June 2nd, 1960.

Chapter 41: Ghana (Consequential Provision) Act, 1960

An Act to make provision as to the operation of the law in relation to Ghana and persons and things in any way belonging to or connected with Ghana, in view of Ghana's becoming a Republic while remaining a member of the Commonwealth.

Price 4d net. June 2nd, 1960.

Chapter 42: Merchant Shipping (Minicoy Lighthouse) Act, 1960

An Act to enable the lighthouse on Minicoy Island and sums held in the General Lighthouse Fund in connection therewith to be transferred to the Government of India, and for purposes connected with the matter aforesaid.

Price 3d net. June 2nd, 1960.

Chapter 43: Abandonment of Animals Act, 1960

An Act to prohibit the abandonment of animals; and for purposes connected therewith.

Price 3d net. June 2nd, 1960.

STATUTORY INSTRUMENTS

The Personal Injuries (Civilians) (Amendment) Scheme, 1960

(S.I. 1960. No. 679)

This scheme amends the Personal Injuries (Civilians) Scheme, 1949, as amended by subsequent schemes, and increases, from £52 a year to £104 a year, the maximum amount which a pensioner may earn and nevertheless be deemed to be unemployable for the purpose of an award of the allowances for unemployable pensioners.

Price 3d. May 1st, 1960

The Control of Hiring Order, 1960

(S.I. 1960 No. 763)

The Order imposes control on the disposal and possession of goods under hiring agreements.

The Order relates to the goods described in the First Schedule disposed of or held under agreements entered into after April 28th, 1960.

The principal requirements of the Order are that (a) the agreement shall be for a definite period of not less than three months or for an indefinite period; (b) before the signing of the agreement, actual payment shall be made of the whole of the rentals and charges payable during the first three months.

The Order does not apply to the disposal or possession of (a) goods of the descriptions specified in items 1-4 of the First Schedule where the hirer is not to be in possession for more than twelve days in any twenty-eight days; (b) goods of the description specified in item 5 of that schedule where the hirer is not to be in possession for more than thirty days in any one year.

Price 4d net. April 29th, 1960.

The Control of Hiring (Rebates) Order, 1960

(S.I. 1960 No. 764)

The Order prohibits the disposal and possession of goods to which the Hire-Purchase and Credit Sale Agreements (Control) Order, 1960, applies, under hiring agreements entered into after April 28th, 1960, which provide for the making of payments of the kind described in Article 2.

Price 3d net. April 29th, 1960.

The Local Government (Qualifications of County Treasurer and Town Chamberlain) (Scotland) Regulations, 1960

(S.I. 1960 No. 900 (S. 46))

These regulations prescribe the qualifications required to be possessed by any person appointed to the office of county treasurer by a county council or to the office of town chamberlain by a town council. These regulations replace the Local Government (Qualifications of County Treasurer and Town Chamberlain) (Scotland) Regulations, 1948, and the Local Government (Qualifications of County Treasurer and Town Chamberlain) (Scotland) (Amendment) Regulations, 1950, and extend to burghs with a population of 10,000 or over the qualifications prescribed in the earlier regulations as required to be possessed by any person appointed to the office of town chamberlain by a town council of a large burgh.

Price 3d net. June 1st, 1960.

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Miniaturized Dictating System

EXCEPTIONAL skill has gone into the designing of the *Fi-Cord 101* miniature dictation system. Based on real knowledge of practical requirements, it offers all the facilities required for recording and transcription in remarkably compact form; is most elegant in appearance (the design is Swiss); and is reasonably priced.

The system revolves round a single tiny tape recorder



Fi-Cord 101 Tape Recorder.

which is used alone for 'mobile' recording; placed on a desk stand for conference work; and on another small unit during transcription. The basic unit ($6\frac{1}{2} \times 3\frac{1}{2} \times 1\frac{1}{8}$ in.) fits neatly into the hand and weighs only 27 oz. It is unique in having a built-in microphone and automatic volume control. Record, playback, fast forward and backward rewind are controlled by push-buttons all mounted on one end of the machine.

Fifteen minutes' recording can be made on each of the two tape tracks and (another unusual feature in a miniature machine) a counter gives accurate-to-a-word location. A paper index slip can be attached to one end of the machine.

Power comes from a flashlamp or mercury battery, which give four or twenty hours' recording respectively. An indicator lamp keeps tabs on battery life.

The desk stand, powered by its own batteries, incorporates its own amplifier and loudspeaker, and occupies less room than a telephone. When the recorder is placed on it the controls operate automatically, leaving the user's hands free. A transcription unit, similar in design, has plug-in points for foot control and stethophone, the latter having its own volume control.

Another excellent feature is the postal carton for tape reels. This holds the tape firmly in place and protects it during transmission; has a snap fastening closure reinforced with a built-in string which winds round a boss on the outside. When filled, the carton can be mailed at sample postage rates from any country in the world.

A neat leather carrying case with shoulder strap contains the recorder, three spare tapes, two spare batteries, dictating slips, lapel microphone and telephone recording unit.

Prices: Recorder with built-in microphone and personal playback speaker £55 13s. Transcriber and foot control £15 15s. Stethophone with own volume control £4 19s. Telephone recording unit £1 15s. Desk stand and multiple-listening speaker £21. Tape in mailing carton 12s 9d per reel. Leather carrying case £4 19s 10d (including purchase tax).

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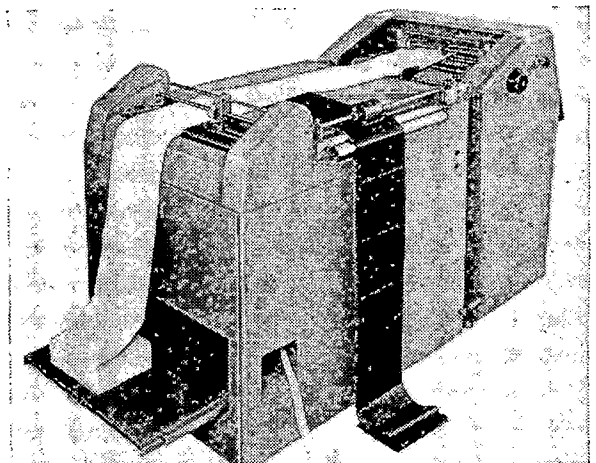
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AUTOMATIC, high-speed separation of continuous forms is the primary function of the new *Fimafold* guillotine. Attachment of extra units can extend its uses to removing carbons from multi-part sets and imprinting numbers and other details on the forms.

The guillotine accepts sprocket-punched forms up to $20\frac{1}{2}$ in. wide, and will trim off the margins, if desired. Depths of forms may vary from $\frac{1}{2}$ to 18 in. and the cut interval can be adjusted in steps of $\frac{1}{8}$ in. (a unique interval, the makers believe) or $\frac{1}{4}$ in. Operating speed, which is adjustable, is fifty to one hundred cuts per minute, depending on form size. Adjustments for varying form lengths are very easily made by the operator.

Optional features on the guillotine are a vertical slitting unit and a stacking device which can also automatically collate sets where two copies of forms are printed side by side.

The imprint unit can print a signature, date, serial number or other information on forms and can incorporate a device which rules continuous vertical lines. The carbon de-leaving unit removes up to five carbons. If desired, it can operate in such a way as to



Fanfold Fimafold Carbon De-leaving Unit and Guillotine.

Equipment

leave carbons between some parts and remove others.

The three units are designed so that all can be hooked together; that either the imprinting or de-leaving unit can be used independently with the guillotine; or the guillotine be used alone. The guillotine can also be coupled to an addressing machine to feed continuous forms synchronously with addressing and deliver them as unit forms.

Price: £695. Auxiliary equipment: Imprint unit, £347 10s; Carbon de-leaving unit, £395.

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Dictation on the Road

MEMORY has a disconcerting way of functioning at an inconvenient time. With no notebook handy, or when driving down a busy road, the important recollection (or inspiration) may disappear for ever amid more immediate considerations.

One remedy for this situation is to use the *Y.C.3*, a transistorized tape recorder small enough (9½ in. by 5 in. by 3½ in.) to fit into the glove compartment of a car. The machine runs from the car battery, from its own U.2 torch batteries or from electric mains; has a jack-plug which can be wired by the user to twin-flex cable and connected to any suitable push-button or on/off switch. A two-way sucker, which fixes the microphone to the side of the windscreen leaves the hands free for driving. The microphone itself is said to be very sensitive and can be volume-adjusted from the machine.

Price: 27 guineas complete.

Inter-Continental Office Equipment Ltd, Vivian Road, Birmingham, 17.

Mechanical Letter-opener

FEW would deny that a mechanical letter opener is convenient and speedy. But many owners of smaller businesses feel that their mail intake hardly justifies the purchase of an expensive machine. For them, the reasonably-priced *Ellams* letter-opener may fill the bill.

The machine uses a tried and tested method—cutting a hairline strip from the top edge of the envelope. In this way, the contents are easily accessible, but are not damaged. And the envelope can be re-used with an economy label.

To open any envelope up to 9½ in. wide, the operator drops it into a slot, where it is automatically positioned. Then, with either hand, he depresses a bar which runs the whole length of the machine. The simplicity of this procedure allows 40 to 50 envelopes to be opened each minute, the makers claim.

Skidding is prevented by large vacuum rubber feet fitted to the bottom of the machine.

Price: £7 7s.

Ellams Duplicator Co Ltd, 5 Dean Street, London W1.

Dual Printing on the Sensimatic

LAATEST version of the well-known *Sensimatic* Accounting machine is the *F.5000*, which has a dual-print feature. The machine incorporates two separate printing heads which, without carriage movement, simultaneously produce two top copies in a single machine cycle. This arrangement, by doubling the work performed in a single machine cycle, considerably speeds up operation.

Burroughs Adding Machine Ltd, Avon House, 356 Oxford Street, London, W1.



Burroughs F.5000 Sensimatic.

Efficient Binding System

AN attractive binding puts the final professional touch to catalogues, price lists and other material produced in the office by offset or other duplicator. Efficient and good-looking results are quickly achieved by the *G.B.C.* system, to which several new machines have recently been added.

The method is simplicity itself. Sheets for binding are aligned and placed in a multi-slot punch. From thence they are moved to a second machine which inserts into the punch-holes a colourful, non-removable plastic spiral. In this way books in a wide variety of sizes and thicknesses can be made up within a few minutes.

Previous equipment was hand-operated. The new items are an electrically powered punch, binder and jogger—the latter an entirely new addition. These powered machines will be particularly useful to the company which has a large volume of work or has occasion to assemble thick books.

Prices: Electric punch, £300. Electric binder, £165. Electric jogger, £35.

General Binding Co Ltd, Doman Road, Camberley, Surrey.

Automatic Address Plate Embossing

IN our issue of June 18th last, we referred to the *Class 6700 Graphotype* machine manufactured by Addressograph-Multigraph Ltd, of Hemel Hempstead, Herts, and stated that its basic price was £1,349. This figure was incorrect: the *Graphotype* itself ranges in price from £3,604 to over £4,000; the tape perforating machine usually used in conjunction with the *Graphotype* being £1,349.

Notes and Notices

PROFESSIONAL NOTES

MESSRS COLLINGE & HALSTEAD, Chartered Accountants, of Manchester, Bury, Blackpool and St Anne's-on-Sea, announce the retirement as from June 30th, 1960, of Mr THOMAS NUTTALL HALSTEAD, F.C.A., senior partner, who has been a partner in the firm for over forty years. Mr HALSTEAD will continue his association with the firm in a consultative capacity and will be available for interviews by appointment.

MESSRS COOPER BROTHERS & Co and Messrs COOPERS & LYBRAND, of the Union of South Africa, announce that on July 1st, 1960, they amalgamated with Messrs H. L. BUZZARD & LACEY, of Durban.

MESSRS COOPER BROTHERS & Co and Messrs COOPERS & LYBRAND, of Singapore and Malaya, announce that in Singapore they have amalgamated with Messrs RENNIE, LOWICK & Co, of Hongkong Bank Chambers, Collyer Quay, Singapore, 1, and in Kuala Lumpur they have amalgamated with Messrs NEILL & BELL, of 28 Old Market Square, Kuala Lumpur.

MESSRS ALFRED G. DEACON & Co, Chartered Accountants, of Leicester, announce that as from June 21st, 1960, Mr EDWARD BELL, F.C.A., has been admitted into partnership. Mr BELL has been associated with the firm for forty years.

Appointments

Mr M. G. T. Rice, M.A., F.C.A., has been appointed a director of Abchurch and General Investment Trust Ltd.

Mr W. G. Allen, F.C.A., has been elected chairman of the British Transport Vehicle Manufacturers' Association.

Mr H. Baron, F.C.A., has been appointed a director of Sanderson Kayser Ltd.

Mr A. F. Bacon, F.C.A., has been appointed to the board of Permoglaze Holdings Ltd and Permoglaze Ltd.

Mr David M. Shalit, A.C.A., has been appointed chief accountant of Alltools Ltd.

OBITUARY

J. B. Lindon, O.B.E., Q.C.

Mr J. B. Lindon, O.B.E., Q.C., whose death at the age of 75 was announced on Wednesday of last week, was chairman of the Panel of Judges of *The Accountant* Annual Awards in 1959. An eminent scholar and a distinguished member of the legal profession, Mr Lindon was a leading company lawyer who was known

and will be missed by many in the City and in the profession where his opinions were much valued.

Hugh Cowan-Douglas, C.A.

It is with regret that we record the death in his sixty-fourth year of Mr Hugh Cowan-Douglas, C.A., a partner in the firm of Brown, Fleming & Murray, Chartered Accountants, of Glasgow.

Educated at Marlborough College and Gonville and Caius College, Cambridge, Mr Cowan-Douglas's accountancy career commenced immediately following the First World War, and in 1924 he was admitted a member of The Institute of Accountants and Actuaries in Glasgow.

In the same year he became a partner in the firm of Aitken, Mackenzie & Clapperton, remaining until 1948 when, following amalgamation, he became a partner in Brown, Fleming & Murray.

Mr Cowan-Douglas, who was elected a director of the Royal Bank of Scotland last year, was a director of a number of companies as well as being chairman of Glenfield & Kennedy Ltd, the United Turkey Red Co Ltd and the Harland Engineering Co Ltd.

During the First World War he was commissioned in the Rifle Brigade in 1914 and served with the 4th Battalion in France and Salonika until 1919. From 1921-38 he served with the 5th Battalion Highland Light Infantry (T.A.) of which he was at one time in command. Shortly before the outbreak of the Second World War he raised the 57th (Glasgow) Searchlight Regiment, R.A. (T.A.) which he commanded until 1942 when he became G.S.O.1. (H.G.) with Anti-Aircraft Command until 1944. In 1947 he was made honorary colonel of his regiment.

In his youth, Mr Cowan-Douglas was an international hockey player, being three times capped for Scotland.

Herbert Charles Howell, F.C.A.

It is with regret that we record the sudden death of Mr Herbert Charles Howell, F.C.A., on July 15th, at the age of 67.

Mr Howell was admitted to membership of The Society of Incorporated Accountants in 1921, and was elected to fellowship in 1928; he became a Fellow of The Institute of Chartered Accountants in England and Wales in 1958 following integration. Up to the time of his retirement from practice in 1956, he was the senior partner of McEwan, Wallace, Howell & Co, of Birkenhead and Liverpool.

He had long-standing connections with the building trade, and was a keen golfer and prominent freemason, being a past officer of the Grand Lodge of England and of the Provincial Grand Lodge of Cheshire.

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REVALUATION OF ASSETS

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**THE CHARTERED ACCOUNTANTS'
BENEVOLENT ASSOCIATION**

At a recent meeting of the Executive Committee, the chair was taken by Sir William Carrington, F.C.A., President of the Association, and ten members were present.

Applications for Assistance

Eight new applications for assistance were considered; in three cases a grant was made; in four cases a donation was given either as an interim measure or to overcome temporary difficulties and one case was deferred for further inquiries to be made.

Twenty cases for further assistance were considered. In nine cases the grant was renewed; in three cases the grant was increased; in six cases the grant was reduced owing to improved circumstances and two cases were deferred.

W. B. Peat Memorial Scholarship Fund

Two new applications were considered and in each case a grant of £30 per annum was made for three years.

Matters Reported

It was reported that the Board of Governors and, later, the members at a special general meeting had approved unanimously the proposals for The Incorporated Accountants' Benevolent Fund to be integrated with the Association.

The Hon. Secretary reported changes in circumstances of seven beneficiaries; in six cases grants were adjusted or donations made; in one case assistance was no longer needed owing to improved circumstances.

The death of two beneficiaries who had been assisted since 1935 and 1940 respectively was reported; in the latter case a widow survives and a donation was given as a temporary measure until her affairs were settled.

**THE INSTITUTE OF MUNICIPAL TREASURERS
AND ACCOUNTANTS****Results of Examinations held in May 1960**

*Places and Prizes will be awarded
on the combined results of the May and November 1960 Examinations.*

**FINAL EXAMINATION
PART A**

(in alphabetical order)

- | | | |
|--|---|---|
| Aldridge, S., Great Yarmouth C.B. | Dibble, B. E., Wolverhampton C.B. | Jackson, A., New Mills U.D.C. |
| Allis, J. H., Stafford B. | Dishington, J., Lanark C.C. | Jenkins, B. K., Neston U.D.C. |
| *Arnold, W. D., Plymouth C.B. | *Doudney, E. C., Leicestershire C.C. | Johnson, R., Cheshire C.C. |
| Asplin, M. J., Nottinghamshire C.C. | Duckett, I. R. J., Chippenham B. | †Jones, F. P. B., Crickhowell R.D.C. |
| Aston, P. G., Wolverhampton C.B. | | |
| Ayress, D. G., Kingswood U.D.C. | | |
| | Elliot, W. G., Nairobi (Kenya). | Kaye, I. N., Coventry C.B. |
| Baggott, J. K., Gloucestershire C.C. | Ellis, S., Sussex (East) C.C. | Kerle, R. E., Nottingham C.B. |
| *Baker, K., Staffordshire C.C. | Endacott, G. T., Worthing B. | Kirk, M. J., Coventry C.B. |
| Ball, D. G., London C.C. | | Kirkman, B. F., Coventry C.B. |
| Ballad, H. J., Buckinghamshire C.C. | Farmer, P., West Hartlepool C.B. | Kitteringham, D. A. P., Cheshunt U.D.C. |
| Baugh, B. A., Mansfield B. | Firkins, L. J., Southampton C.B. | Knapper, E., Staffordshire C.C. |
| Beavan, M. W., Birmingham C.B. | *Ford, R. A., Boddington & Wallington B. | |
| Beerling, D., Kent C.C. | Foster, H., Manchester C.B. | Ladeinde, O. A., Reading C.B. |
| Bell, W. R., London C.C. | Foster, J. R., Newcastle upon Tyne C.B. | Lambert, J. M., Exmouth U.D.C. |
| Berry, J. F., Esher U.D.C. | *Frean, P. B., Fulham M.B. | Lomas, K. W., Coventry C.B. |
| Bristow, H. E., Reigate B. | | Lythgoe, B., Fleetwood B. |
| Broome, B. R., Bristol C.B. | Gaillard, P. G., Stevenage U.D.C. | |
| Brown, A. R., Coventry C.B. | Garman, A. R. E., St Albans B. | Mansley, T. W., Brighouse B. |
| Burling, D. A. G., Brentford & Chiswick B. | Giddens, J. D., Ministry of Housing & Local Government. | *Marks, J. M., Nottinghamshire C.C. |
| | | Martin, K. E., Bristol C.B. |
| Cainey, C. E. J., Derbyshire C.C. | *Goodwin, P. R., Leicestershire C.C. | Meekosha, F. S., Nottinghamshire C.C. |
| Carswell, C. G., Ministry of Housing & Local Government. | Gould, A. F., West Bromwich C.B. | Miller, D., Willesden M.B. |
| Chisholm, J., East Ham M.B. | Griffin, J., Stockton-on-Tees B. | Mills, E. R., West Bridgford U.D.C. |
| Collins, J. C., Hatfield R.D.C. | | Morgan, D., Nottingham C.B. |
| Courtney-Holt, D. G. C., Coventry C.B. | *Henderson, A., Lancaster B. | Morgan, J. A., Cardiff C.B. |
| Crofts, I. C., Mansfield B. | *Hill, R., Aldridge U.D.C. | Mosley, H., Willenhall U.D.C. |
| | Hodgins, W. L., South of Scotland Electricity Board. | *Moss, F. G., Manchester C.B. |
| Dalby, A., Rochdale C.B. | *Hughes, R. W., Wiltshire C.C. | Mullis, S. H., Northumberland C.C. |
| *Davy, H. L., Hitchin U.D.C. | Hyett, F. G., Glamorgan C.C. | |
| | | Neighbour, J. H., Middlesex C.C. |
| | | Nevin, F., Stanley U.D.C. |

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*Orme, S. E., Derby C.B.

Parker, D. E., Cardiff C.B.
Pearson, D., Ministry of Housing & Local
Government
Pett, D. E., Chigwell U.D.C.Radley, J., Rotherham C.B.
Ramsay, A. J., Wanstead & Woodford B.
Robinson, R. T., Derby C.B.
Rose, K. E., Buckinghamshire C.C.
Rossiter, D. G., Lancashire C.C.Scottford, J. E., Reading C.B.
Sharp, J., Rotherham C.B.
Shaw, G., Norwich C.B.
Shillibier, H. J., Bridgend U.D.C.
Shufflebottom, E., Manchester C.B.
Southern, G. T., Newcastle upon Tyne C.B.
Speight, S. R., Leicester C.B.
Stanton, P., Worcester C.B.
Stobbs, T., Durham C.C.
Surtees, P. J., Scarborough B.
Symes, J., South Eastern Electricity Board
Taylor, J. D., Nottinghamshire C.C.Thorogood, T. L., Hornchurch U.D.C.
Threlfall, I. P., Leyton M.B.
Timbrell, H. C., Gloucester C.B.Weatherly, D., Epsom & Ewell B.
White, J. F., Nottingham C.B.
White, T., Warwickshire C.C.
Willgoss, K., Ealing B.
*Williams, W. P. H., Gloucestershire C.C.
Wood, A. J., Bexhill B.
Wood, J. W., Nottinghamshire C.C.
Young, J. N., Stirling

* Passed Part B (or Part 1) at a previous examination.

† Passed Part B in May 1960.

PART B

*Allen, P. J. V., North Cotswold R.D.C.
*Ashcroft, C. N., Wigan C.B.*Ball, A. F., East Barnet U.D.C.
*Barnes, E., Salop
*Bartram, W. E., Hebburn U.D.C.
*Bate, R. A., Buckinghamshire C.C.
*Bayliss, G., Birmingham C.B.
*Bloomfield, D. M., Clacton U.D.C.
*Boardman, H. J., St Helens C.B.
*Bowker, R., Barrow-in Furness C.B.
Broadfoot, J., Edinburgh
Bunting, C. G., Derbyshire C.C.
*Burton, F. R., Nottinghamshire C.C.*Caiger, E. P., Wembley B.
Craddock, G. A., Derbyshire C.C.
Cummings, G. L., Cheltenham R.D.C.*Dobner, F. W., London C.C.
*Duncan, J., Lanarkshire*Eastwood, R. E. N., Crawley Development
CorporationFieldhouse, B., Hampshire C.C.
*Flaxman, B. J., Norfolk C.C.
*Fox, K. S., Rotherham C.B.
Fox, R. J., Yeovil B.
*Freeman, E. S., Shoreditch M.B.*Gibson, A. M., Renfrew
*Gore, J. V., Prestwich B.
*Gray, R. H., Halstead R.D.C.
Greatorex, C. F., Derbyshire C.C.*Griffiths, C. A., Newport (Mon) B.
Grimshaw, E., Luton B.Hallows, D. A., Derbyshire C.C.
*Harris, R. G., Buckinghamshire C.C.
Hemsley, P. R. P., Derbyshire C.C.
*Hemsley, W. R., Salop C.C.
*Herbert, I., Nottinghamshire C.C.
Howells, R., Merthyr Tydfil C.B.James, W. B., Thurrock U.D.C.
*Jardine, R., Dunbartonshire
*Johnson, H., Barrow-in-Furness C.B.
† Jones, F. P. B., Crickhowell R.D.C.
*Jones, J. R., Dartford B.*Kay, J. H., Manchester C.B.
*Knowles, R., Buckinghamshire C.C.

Love, S. F., Swindon B.

*Malloy, F., Belfast
*Matthews, D., Swansea C.B.
*Matthews, H. E. B., Newport (Mon) B.
*McMurdo, D., Nottingham C.B.
*McNaughton, A. D., Grimsby R.D.C.

Ogilvie, D. A. R., Leicester C.B.

*Page, K., Whitby U.D.C.
Perrins, N. R., Bradford C.B.*Rhodes, J. B., Manchester C.B.
*Robinson, F. C., Brierley Hill U.D.C.
*Robinson, W. H., Harrogate B.

* Passed Part A at a previous examination.

† Passed Part A in May 1960.

*Rocke, J., Salop C.C.
Rodgers, K., Chesterfield R.D.C.
*Rogers, S., Stoke-on-Trent C.B.*Sanderson, J. P., Doncaster C.B.
*Sanderson, M. G. W., Morley B.
*Scott, J. F., Mufulira (Nth. Rhodesia).
*Simpson, R. E., Coventry C.B.
*Sinclair, H., Wick
*Smith, G., Glasgow
*Smith, J., Warrington C.B.
*Smith, J. R., Portsmouth C.B.
*Smith, M. J., Portsmouth C.B.
Smith, P. J., Bradford C.B.
*Springham, P., New Forest R.D.C.
*Stevenson, B. S., Hertfordshire C.C.
*Stirton, S. H., West Lothian*Talbot, J. S., Deal B.
Thomas, T. A., Manchester C.B.
Thornton, J. G., Cheshire C.C.
Timperley, C. P., Derbyshire C.C.*Walley, R., Chester C.B.
*Walls, G. C., Epsom & Ewell B.
Ward, B. C., Derbyshire C.C.
*Watts, R. C., Dorset C.C.
Webb, D. A., Gloucestershire C.C.
Welch, A. J., Manchester C.B.
*Wilcox, J. F., Worcester C.B.
Williams, G. A. H., Derbyshire C.C.
*Wilson, I. C., Motherwell & Wishaw
*Wood, S. W., Hornsey B.
*Worth, P. S., Caistor R.D.C.
*Wright, R. C., Hyde B.

Summary of Results

	Intermediate		Final Part A		Final Part B		Total	
	No.	per cent	No.	per cent	No.	per cent	No.	per cent
Passed	136	37	110	38	87	43	333	39
Failed	228	63	177	62	117	57	522	61
	364		287		204		855	

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Children's Tax Charter

IF every taxpayer were as wealthy and as litigious as the Inland Revenue, that strange collection of inconsistencies which goes by the name of Inland Revenue practice would surely suffer some striking changes. This reflection is prompted by the decision of MR JUSTICE CROSS last week in *Barclays Bank Ltd v. Naylor*. The bank was appealing against a refusal to repay income tax in respect of the personal allowances of MICHAEL CHEETHAM, aged 13, for whom the bank was trustee. The grounds of the refusal were that there was no income, and that if there was income, it was not MICHAEL's but his father's.

As one of sixty-eight children of expatriate employees of Imperial Chemical Industries and its subsidiaries, MICHAEL was a named beneficiary in a deed of covenant under which the I.C.I. paid an annual sum of £27,000 less tax for the seven years starting with 1957, pursuant to a scheme described as 'Education Assistance: Expatriate Staff'. The trustees of the deed of covenant were all employees of I.C.I. and they held the annual payment on trust at their discretion to pay or apply it for the maintenance, education or other benefit of the sixty-eight children.

MICHAEL, then aged 9, was the son of an employee of I.C.I. (China) Ltd, and was at school in England. He had his own account at Barclays Bank and each term the trustees arranged to pay into that account a sum of money equal to 75 per cent of his basic school fees, plus one-third of £50 per annum towards his maintenance during school holidays, less United Kingdom income tax. The deficiency was to be made up by a loan equal to the tax deducted, with the object of meeting MICHAEL's expenses until he was able to obtain repayment of the tax deducted. In accordance with this arrangement the trustees paid £82 11s 3d into MICHAEL's account and the bank, armed with the certificate of deduction of tax, claimed repayment of personal allowances from the Inland Revenue amounting to £61 0s 5d in tax. The Inspector objected to this claim and the General Commissioners accepted his submission (which was in accordance with Revenue practice) that the money paid by the trustees constituted emoluments of MR CHEETHAM's employment, and was not the income of MICHAEL. It was also argued that the annual sum was not an 'annual payment'.

Faced with a decision of this kind, and bearing in mind the costs of litigating against the Inland Revenue with its practice of taking cases up to the House of Lords if necessary, most taxpayers deem it prudent to acquiesce - particularly when the amount at stake to them is less than three figures. Hence the persistence

of the practice. Where, however, the I.C.I. is concerned, not to mention sixty-seven other cases, and bearing in mind that besides having great wealth the I.C.I. is blessed with a former tax inspector as its chairman, different considerations apply. The bank appealed successfully.

MR JUSTICE CROSS said it was obvious that the I.C.I. had not executed the deed of covenant out of disinterested benevolence but to provide an inducement to people like MICHAEL's father to continue in the service of the subsidiary companies overseas. However, there was no agreement between the I.C.I. and MICHAEL's father to continue in their service in consideration of the income for MICHAEL, and MICHAEL was clearly under no obligation to do anything in return for the income. The Crown had argued that the trustees' performance of their obligations resulted in consideration to the I.C.I. in the form of a more contented staff. But that was to confuse consideration with motive. The trustees' duties would have been precisely the same if the

I.C.I. had not been moved by commercial considerations.

The Crown had also said that the £83 was not part of MICHAEL's income but was part of his father's remuneration. No doubt payment for an employee's child's education *could* be 'money's worth' to the employee, but the way the I.C.I. had contributed was by providing the child itself with an income. The Crown would have to show that the money paid into MICHAEL's account became the father's income when it was taken out to pay the fees for which the father was liable. If the Crown could show that, it must rest on some principle which had nothing to do with the fact of the father's employment; it would apply equally to a trust set up by the child's grandmother. The Crown had been driven to admit this logical extension of this part of its argument, but his lordship rejected it. He added that no one had impugned the genuineness of the deed of covenant or of the exercise of the trustees' discretion in MICHAEL's favour.

FINANCE BILL

Taxing Capital Gains—IV

WE spoke last week of clause 22 (2) which forestalls avoidance of tax under the clause by, as it were, a device upon a device. The building company might sell its interest in the building at a price which gives no profit, but those controlling might then sell the shares at an inflated price either to the purchaser of the building or, if it is a company, its 'associated company'. This phrase does not have the same meaning here as it has in the Finance Act, 1953, in relation to subvention payments. Clause 43 (1) provides that two or more companies shall be treated as associated if one has control of the others, or any person has control of all. Clause 43 (2) provides that references in Part II of the Bill to one company having control of another, mean its having control thereof either by itself or in conjunction with any person having control over the first company. Whether this definition of 'associated company' is exclusive is a moot point, but the Opposition complained energetically that it was too rigid and ought to extend to any two or more persons acting together. The way

would seem to be open for the sale of the building to one person and the sale of shares to another under an arrangement whereby the two purchasers were acting in consort without being associated companies.

Clause 22 (2) has no counterpart in clause 21, which is confined to deals relating to trading stock. If the device were used in order to avoid clause 21, then the Crown's remedy would be by proceeding under clause 28.

Clause 22 (3) has in mind another device for avoiding the clause. It may be that a land-owning company would permit another company to erect a building on the land, but would not itself erect the building or secure its erection. If the building company is an 'associated company', and if not later than six years after the building was finished some person acquires control of the land-owning company, clause 22 will apply to the sale of shares in the land-owning company as though its interest in the land were an interest in the building. That is how clause 22 (3) is drawn, although it is difficult to

see how the company owning the land could fail to have an interest in the building standing on it, whoever put the building up. Clause 22 (6) provides expressly that a building (whether complete or not) shall be taken to include its site.

It is time to turn now to the exempting provisions of clause 22. Where a sale of shares in a building company produces no real change of ownership of the underlying assets, as for instance on a reconstruction, there is no real avoidance. The proviso to clause 22 (1) excludes the clause where

- (a) the shares in the company are sold by a person to another company and the shares in each company are held, directly or indirectly, by the same persons in the same proportion; or
- (b) the shares are sold by one company to another and the shares in each company are held, directly or indirectly, by the same persons in the same proportion.

The proviso goes on to direct that regard must be had to any difference in the nature of the shares or the rights attaching to them but does not say how. This relief may be compared with the stamp duty relief granted by Section 55 of the Finance Act, 1927, when assets are transferred from one company to another in connection with a reconstruction or amalgamation.

A company may erect a building neither for sale nor for investment; it may be a factory or a departmental store to be used in the company's trade. Eventually it may be decided to dispose of the building. Such a disposal would be unlikely to attract tax on ordinary income tax principles (cf. e.g. *The Glenboig Union Fireclay Co Ltd v. C.I.R.* (1 A.T.C. 141)). However, it may be decided to carry out the transaction by selling the company's shares, in which case clause 22 would apply but for clause 22 (5). This sub-clause excludes any building provided for use, and brought into use, for the purpose of a bona fide trade carried on by the company which erected the building – other than a trade of dealing in land or securities.

Where the building company does not carry on a trade it may perhaps safely dispose of the building in a winding up, without being caught by an ordinary Case I assessment, in which case it would be unnecessary to resort to the device of selling shares instead. Clause 22 (4)

deals with this by imposing a Case VI liability on the notional profit made on the building if liquidation supervenes within six years of its completion. In the ordinary case, of course, the liquidator sells to outsiders and distributes the surplus proceeds among the contributories. However, here again the liquidation may be part of a reconstruction in which there is no real change of ultimate ownership of the building. The proviso to clause 22 (4) provides relief to meet this consideration but only to a very limited extent; it applies only to the case where all the shares in the building company in liquidation belong to another company, i.e. it applies only to the winding up of a wholly-owned subsidiary.

The holding company has twelve months after the liquidation has commenced to give notice to the Inspector of an election to the effect that if the holding company acquires the building in the winding up, the preceding provisions of clause 22 (4) shall not apply. However, if the holding company sells its interest, or part of its interest, in the building it will have to pay tax on a notional profit under Case VI. The draftsman of this complicated proviso contemplates that the assets of a wholly-owned subsidiary in liquidation can be 'acquired' by the holding company. He is presumably ignorant of the fact that the Stamp Duty Office argue in those circumstances that the assets already belong to the holding company.

Clauses 21 and 22 deal only with sales of shares in companies which actually own trading stock or interests in buildings. Taken by themselves, the clauses could easily be avoided by interposing a holding company, and by selling the shares in the holding company. The holding company would be a pure investment company which had not erected any buildings and therefore would be quite outside clauses 21 and 22. This loophole is closed by clause 23 which is not confined to cases where the holding company actually controls the first company.

The operation of clause 23 in the simpler type of case can best be explained by the following example:

C.1 holds trading stock.

C.2 holds 500 shares in C.1.

C.2 has an issued capital of 1,000 *one-class* £1 shares.

T. sells for £100,000, to a person controlling C.1, 200 shares in C.2.

At the date of sale the market value of C.2's assets (less liabilities and less the value of its 500 shares in C.1) is £40,000.

T. is deemed, for clause 21 and clause 22 purposes, to sell 100 shares in C.1

$$\text{(i.e. } 500 \times \frac{200}{1,000})$$

for a consideration amounting to £92,000

$$\text{(i.e. } £100,000 - (£40,000 \times \frac{200}{1,000})).$$

The straight fraction of $\frac{200}{1,000}$ in the above

example can apply only where C.2's issued shares are all one class. If the issued shares of C.2 are not all one class, then the draftsman gives up the unequal struggle to find a formula for the fraction; instead, one is to take such fraction 'as may be just'. It is well that clauses 21 and 22 do not apply except on the initiative of the Inspector. Otherwise, any taxpayer who had sold shares in a company which held shares in another company (not an unusual transaction) would be faced with an impossible task when he tried to fill up his income tax return.

Clause 23 (6) provides that where C.2 is itself a company having trading stock or newly erected buildings, then clause 21 or clause 22, as the case may be, is also to apply to the sale of shares in C.2. There may of course be a long chain of companies, like a series of Chinese boxes, with some trading stock in the innermost box. A sale of shares in any of these companies is to be dealt with under clause 23 'with such modifications as may be necessary in relation to each company' (clause 23 (7)). This should effectively deal with any under-employment in the Inland Revenue.

Clause 24 contains provisions supplementary to clauses 21 to 23 and is designed to close further loopholes. Clause 24 (1) deals with the acquisition of control through purchases at different times, of 'associated parcels' of shares, such that the purchaser obtains control by some purchase other than the first. The earlier sales, if effected after April 6th, 1960, are to be deemed to have been effected at the time of the sale giving control. This means of course that clause 21 will catch the proceeds of the earlier sales, as well as the proceeds of the particular sale to the same person

which gave control. Clause 24 (2) contains an involved definition of 'associated' in relation to separate parcels of shares. They are associated if they 'belong' to:

- (i) the same person; or
- (ii) two or more 'related persons'; or
- (iii) two or more persons carrying on business in partnership.

Moreover, for this purpose shares are deemed to 'belong' to a person if they:

- (a) belong to a company under his control; or
- (b) are held by trustees in consequence of a settlement in relation to which he is the settlor; 'settlement' and 'settlor' being defined as in Section 403 of the Income Tax Act, 1952;
- (c) belong to a person related to him, and he carries on business in partnership.

A person is 'related' to the ancestor, lineal descendant, brother or sister of himself or his spouse and to their respective spouses (clause 24 (2)).

Clause 24 (3), which was added on July 5th, is even more searching; it extends clauses 21 to 23 to sales of shares to persons who do not have control of the company. Clause 24 (3) applies where a person acquires control of a company at any time and there is:

- (a) a sale of shares in the company, to him or to a person from whom he acquires the shares directly or indirectly, which took place before he acquired control, and which was effected 'in pursuance of arrangements for transferring control'; or
- (b) a sale of shares in the company to another person from whom he acquired them, directly or indirectly, being a sale after he acquired control but effected in pursuance of an arrangement for transferring the shares to him.

For the purposes of clauses 21-24 a sale to a person's nominee, or to a company under his control, is a sale to him; and likewise with the creation of an interest. Two or more persons acting together to secure or exercise control of a company are to be treated in relation to it as a single person (clause 24 (5)). A sale made in pursuance of an agreement is deemed to be made as at the date of the agreement (clause 24 (6)).

Clauses 25 and 26 may also be said to tax capital gains; these we must deal with later.

(Concluded.)

HOW TO CONTROL COSTS - VII

The Problem of Overtime

by R. G. H. NELSON, F.C.A., A.C.W.A.

DOES overtime work by production labour waste money or save it? Is it a necessary evil or the symbol of success? Many people have ill-defined ideas on these questions. It is necessary for any industrial accountant to establish firmly in his mind the economic facts of overtime in his particular business.

Overtime is in effect incremental manpower and is worked because there is need for more men than there are available on the authorized establishment. One must ask, therefore, why the choice has been made that the existing labour force shall work longer hours, rather than that the number of men shall be increased. The most common reasons are:

- (a) *Fractional manpower*: The requirement in any particular skill or grade of labour may be less than could keep any additional men fully occupied;
- (b) *Temporary requirement*: The need for additional manpower may be for a short period only.
- (c) *Related costs*: The employment of additional men might involve additional machinery, administrative organization, or other facilities.

The Cost of Overtime

The subject of related costs requires further study. First it is essential to know the incremental cost arising from overtime work, without regard to how that cost is classified for accounting purposes or how it is identified with product units.

The accompanying chart shows some possible examples of cost variations under different arrangements of work-load. In the first column are set out the direct labour cost and selected overhead costs of achieving 4,400 hours of productive work. The remaining columns show three possible methods of achieving 5,000 hours production, (a) by increasing the number of operatives (and machines); (b) by working overtime; (c) by shift work.

The figures show that in considering the choice

between such alternatives the following factors must be taken into account:

- (1) Increasing the number of operatives may involve increasing the number of indirect workers; but the latter increase will not necessarily be proportionate to the former. It is relevant to this point that many indirect workers do not qualify for overtime pay.
- (2) In the non-mechanized shop, the choice between overtime work and an increased labour force will depend on the balance between the cost of overtime premiums and the cost of additional indirect workers.
- (3) The cost of overtime premiums will vary according to whether the overtime is worked during the week or at the week-end.
- (4) The cost of overtime work will also be weighted by other costs such as lighting, which are heavier in overtime hours.
- (5) In the mechanized shop, fixed machine cost will be proportionate to the number of machines and this in turn will vary with the number of operatives, so that this factor will favour working fewer men for longer hours.
- (6) Shift work ensures a higher machine utilization and so a lower charge per hour for fixed plant costs; but such saving must be weighed against the cost of night shift premiums (which are not taken into account in the example given).

In establishing the labour cost differential applicable to overtime working in a short period, the quickest method probably is to examine a recent representative period and to take an average of the weekly premium payments to various classes of worker. No figures, of course, can take into account such intangible factors as (a) the effect, whether favourable or unfavourable, on personnel relations of the need to work overtime, or (b) the effect on the general level of efficiency of the knowledge that overtime will be worked. It should be possible, however, to measure or assess any difference in efficiency between normal working hours and overtime hours.

Reasons for Overtime Work

It will be found in some instances that a certain amount of overtime work is regarded by the workers concerned as a normal means of obtaining a satisfactory income. Under such circumstances management freedom of choice between the alternatives considered may be restricted.

Previous articles in this series were: I - 'Collecting budget information', *The Accountant*, October 3rd, 1959, issue; II - 'Cash forecasting and working capital position', October 17th, 1959, issue; III - 'Control of capital expenditure', November 28th, 1959, issue; IV - 'Productive labour costing', December 26th, 1959, issue; V - 'Productive materials control', March 26th, 1960, issue; VI - 'Credit control', June 11th, 1960, issue.

DIRECT LABOUR FORCE COSTS	4,400 hours work per week		5,000 hours work per week		2 shifts of 57 men working 44 hrs. (Night shift premium ignored)
	100 men working 44 hours	113 men working 44 hours + 1 hour overtime	100 men working 50 hours	100 men working 50 hours	
Direct labour at 5s per hour ..	£ 1,100	£ 1,250	£ 1,250	£ 1,250	£ 1,254
Supervision ..	132	146	146	150	158.4
(1 per 10 operatives at 6s per hour)				6	
Shop clerical ..	24.2	24.3	24.3	27.5	24.2
(1 per 50 operatives at 5s 6s per hour)				1.1	
Storekeepers ..	69.3	69.8	69.8	78.75	99
(7 at 4s 6d per hour)				3.15	
Lighting at 8s 4d per hour ..	—	—	—	2.5	18.3
TOTAL ..	(Cost per hour £.301) 1,325.5	(Cost per hour £.299) 1,492.7	(Cost per hour £.314) 1,569.0	(Cost per hour £.311) 1,553.9	
Machines					
1 machine for 2 men ..	467.5	531.25	531.25	531.25	531.25
Variable costs 4s 3d per hour					
Depreciation at £2 per week per machine ..	1,793.0	2,023.95	2,100.25	2,100.25	2,085.15
TOTAL ..	(Cost per hour £.408) 1,793.0	(Cost per hour £.427) £2,135.95	(Cost per hour £.440) £2,200.25	(Cost per hour £.429) £2,145.15	60.0

Having established the cost implications of overtime work, the accountant who is responsible for agreeing that such costs should be incurred must have regard to the causes of the overtime requirement. The main underlying reasons were given above; but it is necessary to consider in more detail the proximate causes.

(a) *Permanent increase in volume*

The volume of output to be achieved may be permanently greater than that on which the budgeted establishment was based. In this case one has to consider the best way of meeting the increased load, whether by overtime work or by increasing the labour force or by increased mechanization.

It is assumed that the additional work is desirable in the sense of being consistent with the normal field of activity of the plant, and of yielding at least a marginal return.

(b) *Temporary work additional to planned programme*

It is seldom possible to establish definitely whether the work required is in fact additional to programme, but if this can be proved then overtime will be justified provided the work yields at least a marginal return.

(c) *Rearrangement of work within original budget of output*

(i) *Customer requirements.* The customer may require delivery in advance of the normal (agreed or planned) delivery date. In this case the customer can reasonably be expected to bear the cost of overtime work, and the accountant should discuss with the sales manager the possibility of negotiating a revised selling price on this basis. It may be desirable, however, for the company to bear the cost of overtime as a means of establishing good customer relationship. This should not be accepted as grounds for recurring overtime work for the same customer. If the firm is to bear the cost it should be charged preferably into sales department overheads.

Similar considerations apply where there is delay on the part of the customer in supplying drawings, tools or free issue materials.

(ii) *Market conditions.* Due to market conditions there may be a temporary overload on the shop. In some industries this may be a seasonal factor. In such cases the budget would accordingly have allowed for some overtime work, and the accountant's attention should be directed to seeing (a) that the overtime actually worked is within the budget allowance (flexed if necessary in accordance with production volume), (b) that selling prices as a whole reflect these conditions of operation.

(iii) *Production problems.* There is a multitude of possibilities here including: (a) labour efficiency may be lower than budgeted due to short runs (perhaps resulting from sales mix), or to disorganization of the programme by some other cause; the accountant may have had warning of this possibility by following the trends of departmental efficiency. (b) Machine breakdown: the reasons for this should have been reported on machine utilization returns and steps taken to rectify the causes in future. (c) Delays in procurement, which may be due to bad scheduling or progressing, or to causes outside the company's control. (d) Bad estimating or planning. (e) Excess scrap causing rework. (g) Excessive rejects from the customer. (h) Inefficiency on starting up a new job or process. (j) Unrealistic targeting of delivery dates; this may give rise to overtime in one period and idle time in a subsequent period and the accountants should watch the returns of idle time for evidence of this factor. (k) Inability to recruit the budgeted labour force.

In general the causes listed under this heading must be brought under control by specific executive action; but it may be necessary in the meantime to accept the need for overtime work.

Accounting for Overtime Costs

(a) *Overtime work by direct labour*

(i) Direct costs are those costs which are identifiable readily with a product unit, and under a system of strict historical costing they will include (1) the quantities of material incorporated into that unit valued at their cost price under the market conditions happening to prevail at the date of purchase; (2) the hours of direct labour used in processing the unit as valued at their cost price according to the wage structure in force at the time the work is done. Under this routine, if a job were performed during hours for which the recognized wage rate was higher than the basic rate (i.e. hours to which a premium rate attached) then that premium would be a proper direct charge to the job.

(ii) Where a stock is held of a particular item of material and that stock comprises of several lots purchased at different prices, it may be a matter of chance which batch is actually used on a particular job. Under such circumstances the material will usually be charged to the job at an average price or if possible at a fixed price.

Similarly where some work is done during normal working hours and other work during overtime hours, it may be a matter of chance which work is done at each time. The premium element of the cost of overtime work should then be spread over all work done. This may be effected either by absorbing labour costs into work at an artificial average rate or by charging the premium into production overheads.

The latter method may give the greater probability of recovering all costs, and may be inevitable if the labour costs of individual jobs is complicated by such additional factors as bonus earnings.

(iii) In studying the trend of production costs over a period it is helpful if the comparison is not disturbed by the fact of temporary overtime work; and this is also an argument in favour of segregating the premium element of overtime costs. Such segregation is often effected most simply by taking the premium into production overheads.

(iv) Where the loading for overheads is based on direct labour costs it may be inequitable if the overhead content of a job depends on the particular rate of the premium in force for the working period. Here again the premium element of overtime pay should be segregated, and is probably best taken into production overhead.

(v) Under standard costing a normal factor for overtime premiums may be built into the standard labour rate, but in most cases the premium rate will be segregated as a labour variance, i.e. it will not be included in the standard prime cost.

(vi) If a customer is being asked to pay for overtime work, then obviously the full cost of such overtime should be collected as part of the direct cost of the job.

(b) *Overtime work by indirect labour*

Whether indirect labour overtime costs are reported in bulk or under the relevant indirect labour functions will depend mainly on the requirements of cost control which are discussed below.

Overhead Cost Control

Assuming that productive overtime premiums are treated as overhead costs, the question arises

how budget allowances should be fixed so as to ensure proper control.

(i) *Direct labour overtime premiums*

Provided the total work-load remains within the budgeted level of activity, then the only budget allowances for direct labour overtime premiums will be those agreed at the beginning of the year as being the desirable alternative to an increase in the number of operatives.

Where the overtime requirement is seasonal, the budget allowance could, of course, be phased. No budget allowance should be given for overtime due to inefficiencies arising during the year.

If the accountant can be convinced (a) that excess output above the budget forecast is being achieved; and (b) that the related costs should not be charged to the customer; or (c) that there will be a shortfall of output on the year as a whole, then in effect a revised budget should be established either amending the basic establishment or adjusting the allowances for overtime premium. Similarly, if the number of operatives differs from the budgeted establishment and the accountant can be satisfied that this is a desirable change of policy, then the overtime allowance may be adjusted accordingly.

If a system of work evaluation in standard hours is in force, then it is possible to flex the budget in accordance with the following formula:

$$\begin{aligned} & \frac{\text{Standard hours produced}}{\text{standard hours planned}} \times \text{working hours planned} \\ & \quad = \text{working hours allowed for period} \\ & \text{Less actual labour force available} \times \text{basic hours per man for period} \\ & \quad = \text{overtime hours permissible} \\ & \quad \times \text{average rate of overtime premium per hour} \\ & \quad = \text{direct labour overtime premium allowance} \end{aligned}$$

The calculation will be approximate to the extent that uncompleted work is not recorded, that an average figure of manpower may have to be used where the labour force varies frequently, and that an average rate of overtime premium will be used.

If standard hours are not available a premium allowance can be established only by a special study of the circumstances of each case. Where the work of a shop is partly rated, it is desirable to show the calculable allowance for rated work separately from assessed allowances for unrated work.

(ii) *Indirect labour overtime*

Indirect labour hours may fluctuate partly as a consequence of variations in direct labour hours, and partly due to factors affecting particular indirect functions only (such as storekeepers'

time for periodic stock counts and accountant's overtime at balancing dates).

(a) *Indirect labour varying with direct labour.* The accountant has examined in detail the causes of direct labour overtime, and has given a budget allowance only for the costs he considers justifiable; thus throwing up as excess cost the balance of direct labour overtime premium.

It may be of interest to know the full cost effect of the unjustified overtime, but for the purposes of overhead cost control in a short period it is considered that a budget allowance may be given for all indirect labour hours resulting directly from the total direct hours worked (whether justified or not). The formula could be:

$$\begin{aligned} & \frac{\text{Actual direct hours worked}}{\text{direct hours budgeted}} \\ & \times \text{hours budgeted for the indirect function being reviewed} \\ & \quad = \text{allowed hours for indirect function} \\ & \text{Less indirect labour force available} \times \text{basic hours per man for period} \\ & \quad = \text{allowed overtime hours} \\ & \quad \times \text{average rate of indirect overtime pay per hour} \\ & \quad = \text{overtime pay allowance} \end{aligned}$$

It will be noted that one is concerned here with the total pay for overtime hours, and not merely with the premium element of such pay.

Workers not entitled to overtime pay would be excluded from the above calculations.

The overtime allowance arrived at by using the formula may be a negative figure, indicating that for the period of review that particular indirect function was overstaffed. Any positive allowance resulting from the above calculations would be based on the assumption that the correct number of indirect workers was employed. The amount of the allowances calculated would require scrutiny for indication that the number on establishment should be increased.

(b) *Other indirect labour overtime.* For normal recurrent indirect labour overtime the original budget should contain a suitable provision phased if necessary. If circumstances change significantly the budget could be revised.

No further allowances should be given during the year, all random overtime being regarded as resulting from inefficiency.

Sometimes indirect labour overtime will be worked in connection with special projects such as shop layout or the introduction of new office systems. The cost of such overtime could be recorded separately and charged to an overhead account appropriate to the type of project concerned. The basic indirect hours involved in such a project should be eliminated from any calculations of labour available in establishing allowances under (a) above.

Running the Smaller Office

8 — HOUSE STYLES

by An O. & M. ADVISER

WITHIN the limits of common sense it is advisable to lay down standard procedures for routine office work. These should be set out in the manual of office practice to which reference has already been made. If these matters are not set out clearly and simply in writing, the way is open for each department or section to evolve its own pet way of doing office jobs.

Correspondence Procedure

The importance of this topic may be illustrated in dealing with incoming mail, procedure for correspondence and outgoing mail.

In all offices it should be clearly laid down who may open mail. Standardize on 'refer' stamps; and it should be clearly understood what is to be done about opening letters marked 'personal' 'private' or 'confidential'. This, of course, is a matter of extreme importance, especially in professional offices. Whatever the procedure adopted, it is important that all new staff are informed of the policy.

Clear rules should also be made about who first sees letters in each section. All staff should be taught the use of initials in passing on correspondence: whoever is charged with the task of circulating papers should be instructed to mark each person's name, initials or code on letters to whom they have to be referred and everyone should understand how these references have to be 'cleared'. Documents should be kept circulating until all 'references' are cleared. Rules should also be made about making copies for information and circulating them.

There are special kinds of incoming communications which should be covered by instructions. On cables and telegrams, there should be clear 'standing orders' about decoding and priorities for circulating them in code or *en clair*. There should also be rules about circulating books and documents.

So far as outgoing mail is concerned, it should be laid down at what points in the office letters

will be collected and by whom. Try to stagger the collection and posting of letters throughout the day. It is not uncommon for executives to start dictating letters in the late afternoon for the last collection of the day; needless to say this should be discouraged. Where peaks are not avoidable, examine the potentialities of sealing and franking machines.

There is a good deal to be said for having a standard 'house style' for correspondence. Some go so far as to lay down standard paragraphs which may be used for letters but this can easily lead to stereotyped and stilted letters and defeat the purpose of the exercise. There should, however, be standard practice for placing dates, references and number of carbon copies. Items such as these can be taken care of by having their places marked on the printed stationery. Rules about the use of subject-headings are also useful. In some professions there is almost standard practice on this but much less so in commercial offices. If subject-headings are sometimes used and sometimes not—or worse still occasionally used on a subject on which there may be long correspondence—the work of the filing section may be made correspondingly difficult.

Public Relations and the Telephone

The telephone is a common source of irritation to management. It is often wise to have a rule as to who is allowed to take messages, in order to reduce the risk of incorrect messages or faulty information being passed, especially where technical matters are concerned. It is not always fair to blame the girl on the switchboard if anything goes wrong. She should be told under what circumstances she may take a message and when she must take time to find the person required or someone deputed to take messages in his absence. Incidentally the 'public relations' aspect of telephone reception should not be overlooked; a good impression made on a prospective customer or client at this point may be rewarding, and 'house style' should be laid down as to the 'form of address' to be used by telephone operators.

Clear instructions should be given about staff telephone calls. In the London area and the south, more latitude is usually given on this subject than in the north. It is unwise to forbid entirely the receipt and sending of calls. A clerk with a sick child at home will work better if he has a reassuring message by telephone than if he is worried all day. A watch must be kept, however, for abuse of privilege. A moderate quota of local calls and stern control of outgoing trunk calls is standard practice.

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

NEW ZEALAND

Budget Proposals

CHEAPER motoring in New Zealand is likely to be one of the most marked changes as a result of the Budget announced in Wellington by the Finance Minister, Mr Nordmeyer, last week. He proposed to reduce the sales tax on motor-cars from 40 per cent to $33\frac{1}{3}$ per cent (it was increased from 20 per cent to 40 per cent in 1958). At the same time, the tax on petrol is reduced by twopence a gallon, making the price to motorists 3s 4d a gallon. The tobacco tax is reduced by the equivalent of one penny on a packet of twenty cigarettes. Setting his face against a reduction of income tax rates, Mr Nordmeyer said they might jeopardize the country's present stability. However, it seems that the aggregation of married people's incomes will be virtually abolished. The amusement taxes, with the exception of those on cinemas and racing, are abolished, and allowances for overseas travel are liberalized.

To encourage industrial development, companies will be exempted from the excess retention tax where the income is required for new buildings, plant and equipment; and a new special depreciation allowance will be given on plant and machinery. Income tax exemptions for life insurance and superannuation will be increased from £175 to £250, or 20 per cent of the assessment, whichever is the less. Some quick succession relief will be given from estate duty. Commenting on original criticism of his introduction of a dividend tax in 1958, the Finance Minister observed that predictions of a fall in share values and of retardation of company development had not been fulfilled.

SOUTH AFRICA

Commercial Computer Service

THE first commercial computer service in Africa is to be set up in Johannesburg by a new company, LEO Computer Services (Proprietary) Ltd, established by LEO Computers of London and Rand Mines Ltd, and will be operating by April 1962.

The installation, costing over £1 million, will comprise a LEO III computer and will be equipped with a large magnetic core storage system to facilitate the automatic handling of complex commercial problems. Input to the system will be by photo-electrically read paper tape and punched cards, and output by paper tape, punched cards and a high-speed printer operating at 50,000 lines an hour. High-speed multiple magnetic tapes with immediate automatic checkback will provide intermediate storage.

Rand Mines is considering the processing of payrolls for their employees and stores control for

their mines, and a wide range of technical problems including ore-reserve valuations and assessments of the economics of mining operations, is expected to be handled by the new installation.

In addition to operating the Johannesburg service bureau, the new company will market LEO computers in South and Central Africa, including the Rhodesias and the Portuguese territories adjoining. It will also provide a maintenance service to purchasers of LEO installations.

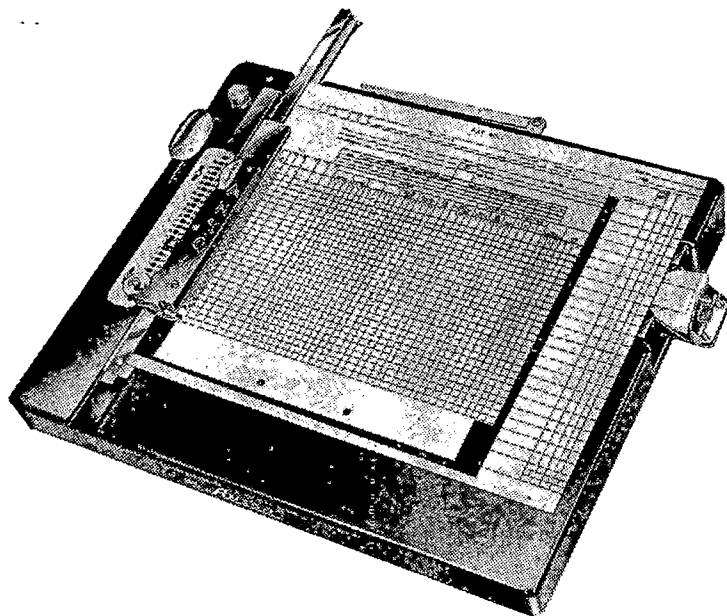
RHODESIAN FEDERATION

Memorandum on P.A.Y.E.

IN a workmanlike memorandum submitted to the Minister of Finance, the Rhodesian Society of Accountants has expressed the opinion that conditions in the Federation were not at present suitable for the introduction of P.A.Y.E. as a means of collecting tax from individuals or from companies. The Society stated that the main advantages of P.A.Y.E. were that it would eliminate taxation legislation being introduced after the end of the assessment year in respect of which it is to be effected; that a more regular and even flow of cash would accrue to the Federation; that there would in consequence be a reduction in short-term Government borrowing with a corresponding saving in interest; and that the itinerant wage earner would not be able to evade taxation as easily as at present. Against these advantages, the Society noted large numbers of workers in the Federation who, because of low rates and the generous abatements in the lower income groups, are not subject to tax. In view of the sparse population and the comparatively small number of taxpayers, the cost of administering and collecting P.A.Y.E. would be out of proportion to the receipts therefrom.

As regards the provisional payment of tax by companies out of accruing profits, the Society pointed out that whereas salaries and wages and even investment income may to a reasonable extent be predetermined, many factors which govern the amount of tax payable by businesses cannot be ascertained before the end of their financial year. Profits do not accumulate evenly from day to day and it would be inequitable to demand interim taxation payments and, therefore, to restrict the availability of finance for one season when results over the year might disclose a much reduced scale of profits or even a loss.

While rejecting P.A.Y.E. as impracticable for the present, the Society stressed that both individuals and companies should be encouraged to make voluntary provision in advance for their taxation commitments and that an official incentive in this direction might be given by increasing the rate of interest payable on tax reserve certificates.

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of cases, the time and cost of fighting a case is out of all proportion.

The Revenue has its own knowledge of which businesses

The New Pensions Scheme

dealings with taxpayers as much as of secret. It gives out no financial expenses at all. But within ninety-nine cases out of a hundred in my experience. Here's an example where the man expected because he hadn't the and the money didn't justify costs. A Scottish divorcee, now on business in India, was taken

competitive trades, especially selling proprietary goods such as the like-spent agree, though, going back

At present we have to mention was spent "wastefully, and necessarily, business. For instance, in cases where a very high proportion of a mole of the spent for the

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CANADA**Recruitment to the Profession**

THE Institute of Chartered Accountants of Ontario has published a new booklet entitled *Chartered Accountancy . . . a Key to Greater Opportunities*. This is the latest move in the drive to interest young men and women and attract suitable entrants to the profession.

Active recruitment is now taking place on most university campuses. Many of the larger national and international firms have sent teams to interview prospective graduates. Even the smaller local firms are not unrepresented on these drives. An analysis of the new enrolments to the instruction course for students-in-accounts run by the Ontario Institute, in conjunction with Queen's University, shows that the profession is tending to look to the universities to supply students of the right calibre:

<i>Years ended April 30th</i>	<i>Total new students registered</i>	<i>University graduates</i>	<i>University graduates as a percentage of total students</i>
1960	438	126	28.6
1959	419	117	27.9
1958	401	102	25.4

The terms offered by most professional firms are now becoming sufficiently attractive to new students to compete directly with the larger industrial firms and commercial institutions for the best men available. Training students has become increasingly expensive due to the higher salaries that have had to be paid. Personality and aptitude tests are being used by many firms in an attempt to screen applicants and avoid failures by those accepted as students-in-accounts. Other firms are showing a marked preference for taking on only university graduates with a proven record of success.

UNITED STATES**Tax Allocation and the Securities and Exchange Commission**

THE Securities and Exchange Commission finally issued its Accounting Series Release No. 85, on February 29th, 1960. The release itself tackled a controversial subject, tax allocation. Indeed, the subject has been so controversial in the United States, that the release was only issued after several Court actions, extended public hearings and fourteen months of further consideration by the S.E.C.

This important release was entitled 'Statement of administrative policy regarding balance sheet treatment of credit equivalent to reduction in income taxes'. It ruled that in future the Commission would no longer accept for filing, statements showing the deferred tax account as part of the earned surplus or equity capital on the balance sheet.

Only a few public utility companies have ever shown deferred tax accounts in the manner now prohibited by the Commission. After all the talk of the last fourteen months the actual release itself should have excited little comment. However, in a discussion on tax allocation in the body of the release, the Commission made a very broad statement, and if a literal interpretation is applied, it goes far beyond present generally accepted accounting principles. The part in question reads as follows:

'It is the Commission's view, however, that comparable recognition of tax deferment should be made in all cases in which there is a tax reduction resulting from deducting costs for tax purposes at faster rates than for financial statement purposes.'

Mr Carman G. Blough, C.P.A., Director of Research of the American Institute of Certified Public Accountants, wrote to the S.E.C. for clarification of this point. The S.E.C. has now obliged with Accounting Series Release No. 86, which states:

'It was not the Commission's intention by the publication of this release (i.e. No. 85) stating an administrative policy regarding balance sheet treatment of the credit equivalent to the reduction in income taxes when deferred tax accounting is employed, to make mandatory the use of deferred tax accounting beyond the requirements of generally accepted accounting principles.'

Computer Operation by a Professional Firm

A FURTHER instance of the operation of an electronic computer service centre by a firm of certified public accountants is given in the June issue of *The Journal of Accountancy*. We referred to a previous case in this column on July 2nd.

The firm in question was already in the management consultancy field. Since no electronic computer service centre was available locally they decided to enter this field themselves.

The machine chosen was a small general-purpose computer, the Royal Precision LGP-30. The rental paid for this computer is reported as being \$1,100 per month, and with a photo-electric reader and an extra tape typewriter, the total rental costs are approximately \$1,500 per month.

Provision of routine accounting information has been left in the hands of the firm's clients. Instead, the firm has concentrated on the production of management information as a by-product of the routine information. This has been done by fitting paper tape punching installations to clients' existing conventional accounting machines.

This computer service centre has been successful because it has brought to the small- and medium-size businesses in its area, top management information not previously available at a reasonable cost.

Weekly Notes

Tax on Exported 'Know-how'

THE Inland Revenue have announced a change of practice in respect of double tax relief on income (including royalties) from the exploitation abroad of what is known as 'know-how' by British residents. Credit for overseas tax is normally given only against income arising or deemed to arise in the territory of the country imposing the overseas tax, a rule which sometimes causes doubt as to whether relief is due.

A Revenue statement in which the changes in treatment are specified is reproduced on page 153.

New Take-over Code

LAST May the Board of Trade published new draft rules which it proposed to make under the Prevention of Frauds (Investments) Act, 1958, governing the conduct of licensed dealers in securities. It has now formally made new rules¹ which follow closely the lines of the draft and which are to come into force on August 9th. Modifications made to meet suggestions brought out by the publication of the draft have been of a minor or drafting kind. The new rules replace rules made twenty years ago which were confined to cases of sales of 'securities' by licensed dealers and were concerned to protect the buyers. The new rules contain many additions designed to protect the owners of securities when they are approached by licensed dealers with offers to buy.

Rules of this kind cannot regulate the actual prices to be offered; whether or not a transaction is a fair one is a matter on which the parties must make up their own minds, after consulting such advisers as they think fit. The rules ensure that full information is given to the owner of securities so that he does not sell shares in ignorance of their real worth. In deciding whether to sell he is of course considerably guided by whether or not the directors of the company in question advise sale. The Third Schedule requires directors who recommend acceptance to give to the shareholders a great deal of information so that they may know whether the directors are likely to be biased and whether the fortunes of the company are about to improve. Thus the directors must say how many shares they own themselves, whether they will follow their own advice and sell, whether they have any interest in the company buying the shares, whether there is any arrangement for paying them compensation for loss of office, or give them new jobs, and last, but not least, whether there has been a material change in the fortunes or prospects of the offeree company since the last balance sheet. A strange gap is that directors who recommend rejection of the offer

are not required to give reasons: it might well be that the absence of any compensation for loss of office was unduly influencing them, although perhaps the offeror can be depended on to reveal this fact.

Needless to say, the dealer making the offer must supply a good deal of information himself, particularly as to the prices at which the securities in question have recently changed hands. If it is a take-over offer, the terms must be such as to keep it open for acceptance for twenty-one days, except in so far as it may be totally withdrawn. Nor must the offer be conditional on the sellers consenting to a payment of compensation for loss of office. If the offer relates to less than the total issue of a class of shares, it must be made to all holders of the class, who are entitled to share *pro rata* in the aggregate amount sold. If the dealer is acting as agent, he must reveal the identity of his principal and whether he has satisfied himself that the principal can in fact produce the money—presumably otherwise than by means of fraudulent conversion.

Five Years for Converting 'State' Money

THE application of £3½ million of the funds of the State Building Society in connection with the abortive take-over of Lintang Investments Ltd has resulted in the conviction of the Society's former managing director and of its former solicitor for fraudulent conversion, and each of them has been sentenced to five years' imprisonment. Herbert Hugh Murray, 68, of Aldwick Avenue, Bognor Regis, the former managing director and secretary, and Friedrich Grunwald, 34, of The Downage, Hendon, London, NW4, former solicitor to the Society, were each convicted of fraudulently converting to their own use and benefit the proceeds of thirty-two cheques worth £3,255,000 received for or on account of the Society, and also of converting to their own use and benefit the proceeds of twenty-four cheques for £150,000 received for or on account of the Society. Murray was also found guilty of falsifying a minute belonging to the Society with intent to defraud while he was a director of the Society. Grunwald was also found guilty of:

- (a) recklessly making a statement and promise to shareholders of Lintang to induce Down Nominees to agree to dispose of 2,750 shares in Lintang;
- (b) as a director of R. E. Jones Ltd, fraudulently applying the proceeds of a £40,000 cheque and of a £100,000 cheque for purposes other than purposes of the company.

It was stated after the trial, on behalf of the two men, that appeals were being considered.

Addressing Murray before sentencing him, Mr Justice Paull said: 'Behind a most plausible façade you are a dishonest rogue who has not hesitated to advertise extensively in such terms that people expected a high return for their money with safety. You were prepared to make use of a considerable part of that money to make yourself, at least on paper, a millionaire. . . .

¹ 1960 S.I. No 1216. H.M.S.O. 6d net.

If you had been a younger man I should have sentenced you to a longer sentence.' To Grunwald, his lordship said, 'You are a solicitor and an officer of the Court. You lent yourself to this fraudulent scheme. It was you who carried through the mechanics of it. I do not think you ought to go to prison for any less term or any greater term than Murray.'

Murray was ordered to pay two-thirds, and Grunwald one-third, of the costs of the prosecution; the trial lasted twenty-eight days. Now that it is over, it is understood that renewed efforts are being made to restore the £3¼ million to the shareholders of the Society as soon as possible.

Enforcing Company Returns

PENALTIES imposed by the Companies Act, 1948, for default in rendering various returns to the Board of Trade are usually comparatively small. It has been stated on behalf of the Board that the practice of proceeding for these penalties in magistrates' Courts has often failed to induce the defaulters to make good their default. The Board has now decided to make more extensive use of the machinery for committing defaulters to prison for contempt of Court.

Section 372 of the Act, for instance, requires a receiver or manager to make a return of receipts and payments and imposes a maximum fine of £5 a day for default. Section 374 gives the Court power to order a defaulting receiver to make the default good. On Monday, Mr Justice Buckley gave leave to the Registrar of Companies to issue three writs of attachment for contempt of Court against Mr Charles William Decimus Over, of Commercial Road, Woking, Surrey, in disobeying Court orders to make to the Registrar statutory returns as a receiver and as a liquidator. It was stated on behalf of the Registrar that Mr Over had failed as receiver and manager of W. Fay & Son (Printers) Ltd to obey an order to deliver an abstract of receipts and payments. He had also failed to obey similar orders served on him as liquidator of Emilies Ltd and of Guildford Cinema Ltd.

His lordship also granted leave to issue a writ of attachment against Mr George Dowman, of Hudson Road, London, E, a director of George Dowman Ltd, of Kingsland Road, E., for disobeying a Court order to make good the company's default in not sending to the Registrar the company's annual returns for 1957, 1958 and 1959. A writ of sequestration of the company's property was directed to be issued against the company.

An Accountant's Establishment

THE refusal of planning permission to Mr Ancrum Evans, F.C.A., to switch part of his establishment to professional uses in place of part already so used and intended to be converted to a nursery, after having been debated in the House of Commons (see *The Accountant*, July 16th, 1960, page 79), was the subject of a long question and an almost equally long Government reply in the House of Lords

on July 18th. Lord Waldegrave, replying to Lord Somers, said that the London Development Plan, which was approved in 1955, contained the following sentence:

'Throughout the county, permission (temporary or permanent) will not, except in very special circumstances, be given for a change from residential use of any residential building which can still be used, with or without adaptation, for residential purposes of any kind.'

Mr Evans's original application was made on the footing that his practice was growing. It was open to him to make another application on the footing that there would be no net loss of residential space.

On Tuesday, Judge Wingate-Saul, at the Southwark County Court, dismissed with costs a claim by Mr Evans against the London County Council for £22 part costs which he alleged the Council agreed to pay in connection with his unsuccessful claim for £400 brought against them in March last concerning their refusal of planning permission. Mr W. C. Hart, Clerk to the London County Council, was subpoenaed by Mr Evans to produce documents of the council.

The Bottomless Purse

THE modernization plan of the British Transport Commission published in 1955 aimed at nothing less than the complete transformation of the railway system, states a report from the Select Committee on Nationalized Industries on the British Railways published last week¹. Expected to cost £1,240 million, the plan was examined by both the Ministry of Transport and the Treasury. The examination was not made in detail nor on technical grounds; thus it emerges that the estimated cost of the electrification of the Euston-Manchester line would exceed £75 million but, states the Select Committee, 'the Ministry did nothing to check that it was the best possible scheme, because they were not consulted'.

The Select Committee was 'astonished at the way the B.T.C. has been able to set in motion great modernization schemes without the departments comparing the economics of them with those of possible alternative schemes; that in giving a banker's sanction to the expenditure on the London Midland electrification, for example, the Ministry did not know what the alternative expenditure in using diesel locomotion would be'. Concern is also expressed because the 'accounting system and costing techniques are as yet insufficiently developed to show where the losses incurred by the Transport Commission are being incurred'. With every justice the report declares that the Commission could and should have introduced, at a much earlier date, improvements in costing and other measures to ascertain the profitability of regions and services.

The report of this all-party Select Committee is a

¹ *British Railways*: Report from the Select Committee on the Nationalized Industries. House of Commons Paper 254. July 21st, 1960. H.M.S.O., 5s 6d.

stern indictment of the lack of Government supervision over a costly capital scheme of a national undertaking, as well as of the Commission's inability to ascertain which parts of the railway system are profitable and which are making losses. The more positive recommendations of the Select Committee, such as the need for retaining a high degree of centralization are debatable. No one, however, will fail to recognize the service that such Select Committees can perform in demonstrating the extent to which Parlia-

ment has lost control of the public purse. The Stedeford Committee of four business men – not least the accountant member – appointed by the Prime Minister to advise him on the future of the Transport Commission will doubtless take this report into consideration in making their recommendations. The sooner something is done to restore Parliamentary control of departmental expenditure, the better it will be not merely for the taxpayer but for the efficiency of the public service too.

This is My Life . . .

by An Industrious Accountant

CHAPTER 35

IT'S strange how many anachronisms still survive in business offices and usually provide headaches for conscientious secretaries – and accountants. Take for example that standard monstrosity, the company seal.

We have a really classic example of such heirlooms in the boardroom, an eighty-year-old model looking like a prototype of Stephenson's 'Rocket'; black varnished springs and a rotating press and bolts, with gold arabesques surrounding a buxom female figure in the early Grecian style on the base. It is mounted on a green marble plinth and security is ensured by two stout locks, the respective keys of which are held by the chairman and the secretary in the inviolable sanctity of their private strong boxes. Or so at least I thought.

We were buying some landed property, and our solicitor finally passed on a bundle of documents for sealing with due formality, as the title deeds were variously held and there were assignments and memorials and so on. I checked them as carefully as possible, having regard to the fact that old documents of title are a specialist's job, being usually illegible or undecipherable, and they were put aside for our next board meeting. Then the chairman phoned from London that he wanted to execute the deeds immediately and would I bring them up on the morning train tomorrow, plus the seal, of course, to do the job.

The office manager explained our traditional procedure for such cases. We had a special padded strong-box to hold the seal, with an attached folder for papers, which my predecessor used to convey dutifully to London, aided by two sturdy clerks as far as our local station. I looked at the box with loathing; to convey its weight through the outspoken porters and taximen of the 1960 metropolis would be distasteful. Obviously guile was needed to lighten the load.

In consultation with our maintenance engineer, I

devised a scheme to dismantle the heirloom and separate the plinth; and all went well till the penultimate screw was being removed, when a sharp cracking sound heralded disaster. A transverse crack appeared in the varnished base, the green interior of the plinth disintegrated, and the structure collapsed. I inspected my handiwork sadly, thinking like Prospero, 'this thing of darkness I acknowledge mine', while the engineer whistled cheerfully and talked of releasing tension and an old fracture.

The important thing was to be able to reach the actual seal plate, but the chairman's lock defied us, until suddenly the office manager interrupted. He had, he said, a spare key. With some complacency he explained that our two previous chairmen had a regrettable habit of – er – 'absenting themselves' for periods of days every now and then, and to avoid dislocation of business, he had thoughtfully procured a duplicate key. Under our stern gazes he coughed modestly and admitted to having acquired a duplicate of the secretary's key also. Bitter experience in the past, he mentioned; apparently the previous secretary had had his moments also. Clearly the assumed security of the seal was only a pious fiction.

In the modern jargon, the moment of truth had arrived. To bring the wreckage to London was unthinkable; to admit inability to execute the deeds was unpardonable; there was only one possible solution. Under my colleagues' startled stare, I impressed the seal on six documents with my own hand there and then, and departed for London.

I must say that for a traditionalist the chairman took the shock well. Accustomed as he is to reverent observance of our article of association No. 94, which enjoins sealing in the presence of not less than two directors, his jaw literally dropped when the papers were put before him for signature . . . 'Already impressed with the seal, Sir. Saves trouble, don't you think?' He looked at me silently for a moment with a sort of appraising glance, then signed without comment. But I may hear more later.

* * * * *

Our engineer and I have since cooked up an alternative gadget as a basis for consideration; a sort of nutcracker affair with the seal inset in the head, a strong double ratchet and spring, and a tiny but adequate lock. Effective, neat, and impressive.

Finance and Commerce

From Sweden

IT is not often – largely in view of language difficulties – that it is possible to present an example of published accounts from another country. This week, however, we have pleasure in reproducing the English version of the accounts of Aktiebolaget Svenska Kullagerfabriken, otherwise The Swedish Ball Bearing Company, part of whose world-wide organization is the English company, Skefko Ball Bearing Company, of Luton, Beds. The figures, of course, are in Swedish kronor, but the text throughout is in English.

The quality of this publication is of a high order: glossy paper, charts in colour, a world map showing the spread of the organization. The amount of information given in the accounts and the manner of its presentation is worth noting.

The charts, which cannot in the space here available form part of the reprint with justice to the original, give ten-year surveys of sales, number of employees, investments in plant and properties, and salaries, wages, taxes and dividends. Growth is shown by the rising trend of coloured columns supported by the actual figures on which each chart is based. There is also a ten-year summary of comparative balance sheets and of comparative profit and loss accounts in millions of kronor. In the directors' report, there is a ten-year table of orders on hand at the parent company's works in millions of kronor calculated, it is stated, at values comparable to 'net sales'.

Auditing the Management

What may probably interest readers as much as the accounts is the extensive auditors' report which forms part of the reprint.

To the vast majority of readers this form of auditors' report must be completely new ground; it is something very much outside general experience in the United Kingdom. Readers may, however, recall an article 'Auditing the management', by Börje Forsström, C.G.R., which appeared in *The Accountant* of May 24th, 1958. In both Finland and Sweden the duty of auditors is to audit the books and the management.

'This', Mr Forsström wrote, 'has a twofold function in that reputable and honest management gets support from the auditors should the result of the year's working be unfavourable, and shareholders, who might have difficulty in reading and understanding the statements presented at the general meeting,

can rely upon their chosen auditors' ability to discover any weak points of material significance or damage caused by negligence or malice.'

There is, apparently, in Sweden, some difference of opinion on just how far auditors' duties go, but clearly they go an extremely long way.

Another interesting though small point in the report is the reminder, under the notice of 'General meeting to be held at the offices of Skandinaviska Banken, in Gothenburg, 3.30 p.m. on Tuesday, May 31st, 1960', that 'Shareholders who wish to attend are requested to notify the Board of Directors before noon, May 27th, 1960.'

AKTIEBOLAGET SVENSKA KULLAGERFABRIKEN

Profit and Loss and Surplus Accounts for 1959

	1959 Kr	1958
NET SALES	470,411,789	439,433,331
GROSS PROFIT	127,927,922	118,555,715
Less: General administrative expenses	4,377,395	4,152,029
Other commercial expenses	29,250,175	27,727,896
	33,627,570	31,879,925
Balance	94,300,352	86,675,790
Sundry expenses etc. not deducted from the gross profit	6,209,973	5,193,488
Total net income from manufacture and selling before providing for taxes	88,090,379	81,482,302
OTHER INCOME:		
Dividends from Subsidiary Companies	131,677,090	21,357,798
Other dividends	1,667,241	904,610
Interest from Subsidiary Companies	1,300,920	3,436,380
Other interest	7,761,654	5,082,390
Profit on sales of capital assets	534,550	801,975
Sundry income	26,971,623	3,960,002
	169,913,078	35,543,155
Total income for the year 1959.	258,003,457	117,025,457
Less: Reserved for taxes	26,000,000	26,900,000
Interest to Subsidiary Companies	380,411	124,005
Other interest expenses	5,039,591	3,642,325
	31,420,002	30,666,330
Net income for the year 1959	226,583,455	86,359,127
Less: Provision for pensions for workers	3,400,000	21,000,000
Provision for pensions for salaried employees	—	19,000,000
Provision for Trade equalization accounts	25,000,000	10,000,000
Provision for Plant renewal fund	47,000,000	—
Depreciation on shares in Subsidiary Companies	111,619,479	1,093,231
Depreciation on other shares	538	2,647
Sundry other amounts not connected with the year's operations.	624,657	506,028
	187,644,674	51,601,906
NET PROFITS FOR 1959	38,938,781	34,757,221
Dividend on Coupon No. 50 as proposed by the Board of Directors	28,080,000	28,080,000
Balance carried over to Surplus Account	10,858,781	6,677,221
Balance in Surplus Account at 31st December, 1958.	24,339,847	17,662,626
SURPLUS 31st December, 1959, as proposed by the Board of Directors	35,198,628	24,339,847
Depreciation for the year (page [150])	33,171,209	27,574,605
E. Wetter Peter K:son Mark	J. Wallenberg Sverre R:son Sohlman Raoul Nordling Joel Larsson Managing Director	
Referring to our certificate of to-day's date we hereby certify that the above Profit and Loss Account agrees with the Company's books, which we have audited.		
Gothenburg, April 14th, 1960		
Hakon Leffler	Nils Zetterholm	Stig Danielson
		Elon Jacobsson

Quinquennial Accounting

A SHORT time ago, as was reported in this column, Mr W. Lionel Fraser, then chairman and now president of Babcock & Wilcox Ltd, put forward the almost revolutionary idea that annual precise profit assessments could not be expected from companies engaged on contracts taking years to complete. He suggested triennial profits.

This line of thought is developed by a contributor to the July issue of *The Accountants' Magazine*, the journal of the Scottish Institute, who writes: 'One is sometimes tempted to wonder whether companies engaged in certain industries should not be freed from the obligation to publish annual accounts and allowed instead to publish accounts once every five years, or perhaps at the end of each major project'.

This writer instances the accounts of Vickers Ltd, where 'the profit before taxation is shown as being

£9 million in 1959 as compared with some £12½ million in the previous year. This profit is struck after providing £5 million against aircraft development expenditure in 1959 as compared with £2½ million in the previous year'.

It is pointed out that there is no way of determining to what year such write-offs properly relate and in view of the imponderables: 'Since the write-offs on this account are so large in relation to the remainder of the figures, the profits of such a business cannot be said to have any precise significance year by year'.

The writer wonders 'whether there are not certain businesses which cannot reasonably be expected to give a true and fair view of profits year by year and which might be better to say so outright'.

It is a point that must be recognized and well worthy of debate. But once admitted for 'certain businesses', where would it end?

AKTIEBOLAGET SVENSKA KULLAGERFABRIKEN

Balance sheet, 31st December, 1959

	1959 Kr	1958 Kr		1959 Kr	1958 Kr
CAPITAL ASSETS:			SHARE CAPITAL	234,000,000	234,000,000
Plant and Property (page [150])	524,652,006	483,876,372	RESERVE FUND	46,800,000	46,800,000
Less depreciation (page [150])	359,631,845	323,746,108			
	165,020,161	160,130,264	SPECIAL FUNDS AND RESERVES:		
Shares in Subsidiary Companies	118,675,410	104,809,097	Insurance funds	9,301,795	8,395,730
Other shares	13,250,330	13,250,333	Plant renewal fund	97,000,000	50,000,000
	131,925,740	118,059,430		106,301,795	58,395,730
Accounts receivable from Subsidiary Companies	1,066,280	11,396,604	TRADE EQUALIZATION ACCOUNTS	49,495,206	29,850,000
	298,012,181	289,586,298			
DEFERRED CHARGES	416,314	350,978	LONG TERM LIABILITIES:		
CURRENT ASSETS:			Pension provision for workers:		
Inventories	114,365,103	80,109,064	Balance 1st January, 1959	54,579,951	33,323,177
Accounts receivable from Subsidiary Companies	45,595,607	36,167,633	Increase during 1959	3,727,593	21,256,774
Other accounts receivable	72,886,917	44,408,660	Balance 31st December, 1959	58,307,544	54,579,951
Shares (Kr 477,800 par value treasury shares at no value)	243,381	242,284	Due to pensions fund for salaried employees	62,373,421	58,429,013
Bonds and other securities	32,348,828	32,766,328	Due to special fund for employees	2,256,373	2,289,540
Acceptances receivable	2,080,170	1,424,689	Due to Subsidiary Companies	4,158,665	4,098,755
Cash at banks and in hand (including Kr 18,000,000 on blocked account with Sveriges Riksbank)	162,574,065	139,439,725	Other long term liabilities	8,534,159	7,853,736
	430,094,071	334,558,383		135,630,162	127,250,995
	728,522,566	624,495,659	SHORT TERM LIABILITIES:		
			Unpaid dividends and repayment of capital	1,113,228	1,098,718
			Accounts payable to Subsidiary Companies	9,398,679	4,416,448
			Unpaid taxes	5,130,242	—
			Other accounts payable	77,374,626	70,263,921
			Dividend on Coupon No. 50 as proposed by the Board of Directors	28,080,000	28,080,000
				121,096,775	103,859,087
			SURPLUS (page [150])	35,198,628	24,339,847
				728,522,566	624,495,659
			Contingent liabilities	44,770,645	51,298,804
			Acceptances discounted	905,760	182,977
			Securities pledged	161,645	161,781
			Pensions paid in 1959 not charged to Provision for pensions (including Kr 774,599 as per commitments)	1,645,608	1,605,295

J. Wallenberg

E. Wetter

Sverre R:son Sahlman

Raoul Nordling

Peter K:son Mark

Joel Larsson

Managing Director

Referring to our certificate of to-day's date we hereby certify that the above Balance Sheet agrees with the Company's books, which we have audited.

Gothenburg, April 14th, 1960

Hakon Leffler Nils Zetterholm

Stig Danielson

Elon Jacobsson

AKTIEBOLAGET SVENSKA KULLAGERFABRIKEN AND SUBSIDIARY COMPANIES

Consolidated balance sheet, 31st December, 1959

	1959 Kr	1958 Kr		1959 Kr	1958 Kr
CAPITAL ASSETS:			CAPITAL LIABILITIES:		
Plant and Property	1,457,943,105	1,321,755,550	Share Capital	234,000,000	234,000,000
Less depreciation	970,365,920	874,632,753	Reserve Fund	46,800,000	46,800,000
	487,577,185	447,122,797	Subsidiary Companies' Reserve Funds and Debt-regulation Funds	37,902,957	36,632,341
Shares in other Companies	14,409,642	14,447,280	Capital and proportion of Reserve Funds and Surplus of Subsidiary Companies not owned	84,397,796	74,865,784
	501,986,827	461,570,077		403,100,753	392,298,125
DEFERRED CHARGES	6,981,174	5,576,594	SPECIAL FUNDS AND RESERVES	393,735,512	346,660,195
			RESERVE FOR EXCHANGE RISKS	40,000,000	40,000,000
CURRENT ASSETS:			OTHER LIABILITIES:		
Inventories	680,567,160	605,499,865	Provisions for pensions	163,324,420	148,195,681
Accounts receivable	282,827,594	225,507,967	Bonded debt	28,811,830	16,533,612
Shares, bonds and other securities	35,201,888	45,854,984	Loans and acceptances	73,717,633	81,985,689
Acceptances receivable	26,689,181	17,250,702	Accounts payable	231,630,718	207,181,419
Cash at banks and in hand	343,972,039	300,467,641	Unpaid taxes	88,343,756	63,818,634
	1,369,257,862	1,194,581,159	Unpaid dividends as proposed	31,502,290	30,717,750
				617,330,647	548,432,785
			SURPLUS:		
			Available at beginning of year	334,336,725	301,122,107
			Net increase during year after allocation of profits (page 12)	89,722,226	33,214,618
				424,058,951	334,336,725
			Out of this amount: Available surplus as per the Parent Company's Balance Sheet	35,198,628	24,339,847
			Remainder	388,860,323	309,996,878
				424,058,951	334,336,725
	1,378,225,863	1,661,727,830		1,878,225,863	1,661,727,830
			CONTINGENT LIABILITIES	34,853,495	38,935,556
			ACCEPTANCES DISCOUNTED	15,017,189	13,544,833

Gothenburg, March, 1960

Joel Larsson
Managing Director

Note: A transfer of the surplus at the companies abroad is dependent on various regulations and is also subject to additional taxation.

Auditors' certificate for 1959

We, the undersigned, duly elected as auditors of AKTIEBOLAGET SVENSKA KULLAGERFABRIKEN, hereby submit the following report for 1959.

In connection with our audit we have examined the Company's accounts and records, the minutes of the Board of Directors and other evidence regarding the Company's financial position and administration.

The stocks of raw materials, shop supplies, semi-finished and finished products on hand as shown by inventories, certified by officials of the Company, have been valued on a conservative basis.

Shares and other securities held in Sweden by the Company have been checked and the insurance policies examined and found to be in order.

The provisions for pensions, shown in the Balance Sheet, have been examined and are in order.

The accounts of the Company have been examined during the year by J. E. Stenbergs Revisionsbyrå AB, authorized public accountants, who have certified that everything is in order.

We have received information regarding the Company's transactions with its subsidiary companies, and a consolidated balance sheet has been prepared, showing the Group's position at the end of 1959. The consolidated balance sheet is made up on the basis of the balance sheets of the 75 companies belonging to the Group, most of which are audited by

chartered accountants in their respective countries. We have examined the principles followed in the preparation of this consolidated balance sheet and, in our opinion, it should give a correct view of the financial position of the Group.

The proposal made by the Board of Directors as regards the disposition of the Company's profits has been duly considered by us in connection with our audit of the consolidated balance sheet. We have no objection to make in reference to the proposed scrip issue.

There is no cause for remarks with respect to the reports presented to us, the accounts of the Company, the specification of its assets, or otherwise regarding the administration of the Company. We accordingly recommend that the Shareholders' Meeting resolve:

To approve the balance sheet as per 31st December 1959 duly signed by us,

To dispose of the available surplus, Kr 63,278,628, in accordance with the proposal made by the Board of Directors, which is not contrary to legal funding provisions.

To grant the Board of Directors discharge for their administration during 1959.

Gothenburg, April 14th, 1960.

Hakon Leffler Nils Zetterholm Stig Danielson Elon Jacobsson
Authorized public
accountant

AKTIEBOLAGET SVENSKA KULLAGERFABRIKEN

		Plant and Property 1959		1958	
		Assessed value Kr	Fire insurance value Kr	Book value Kr	Book value Kr
Agricultural and forest real estate		22,151,400	42,954,600	2,661,354	2,567,823
Less depreciation				2,661,353	2,567,822
				1	1
Mines		—	—	220,009	225,708
Less depreciation				220,008	225,707
				1	1
Waterfalls		—	—	83,600	83,600
Less depreciation				83,599	83,599
				1	1
Factory property and other real estate		174,082,500	315,436,600	207,426,023	201,429,462
Less depreciation				109,766,570	94,186,607
				97,659,453	107,242,855
Machinery, motors, tools, furniture and fixtures, patterns, etc.		—	517,625,100	290,780,449	269,522,006
Less depreciation				241,533,434	220,037,888
				49,247,015	49,484,118
Construction orders in process		—	20,091,000	23,480,571	10,047,773
Less depreciation				5,366,881	6,644,485
				18,113,690	3,403,288
Total cost of Plant and Property		—		524,652,006	483,876,372
Total depreciation				359,631,845	323,746,108
				896,107,300	165,020,161
				160,130,264	

Note: The assessed value of mines and waterfalls is included in the amounts shown for agricultural and forest real estate and for factory property and other real estate respectively.
The assessed value of factory property and other real estate includes a "special machinery value" amounting to Kr 38,025,800.
Since the latest real-estate assessment, a total amount of Kr 17,914,802 has been used for the erection, enlargement or conversion of buildings, but has not yet caused any change to be made in the assessed values.
Land, mines, waterfalls, paving, tracks, foundation reinforcements, etc. are not insured.

		Depreciation 1959	
		1959 Kr	1958 Kr
Depreciation for the year:			
On factory property and other real estate		5,428,539	5,230,499
On machinery, motors, tools, furniture and fixtures, patterns, etc.		23,500,370	22,344,106
On construction orders in process		4,242,300	—
Total depreciation		33,171,209	27,574,605
Add: Amount transferred to Trade equaliza- tion accounts		5,354,794	—
		38,526,003	27,574,605
Less: Net amount of other debits and credits		2,640,266	2,276,466
Net amount		35,885,737	25,298,139

		Surplus 1959	
		1959 Kr	1958 Kr
Balance at 31st December, 1958, before transfers as proposed by the Board of Directors		52,419,847	43,402,626
Distribution decided upon by the Shareholders' Meeting in 1959:			
Dividend on Coupon No. 49		28,080,000	25,740,000
		24,339,847	17,662,626
Net profit for 1959		38,938,781	34,757,221
		63,278,628	52,419,847
Available surplus			
Less: Amount to be disposed of by the Share- holders' Meeting in 1960 as proposed by the Board of Directors		28,080,000	28,080,000
SURPLUS as per Balance Sheet (page [148])		35,198,628	24,339,847

CITY NOTES

INTERNATIONAL and economic developments are still keeping the stock-markets on a short rein. Weakness on Wall Street is now possibly the most forceful influence. The New York market has turned flat largely because, with industrial programmes usually mapped out at this time of the year, the American steel industry is still only working at half pressure. This winter, American industry is likely to be hard pressed to achieve any marked expansion and the result could well be an inventory recession against which the economy here may not be entirely immune.

Four years ago when the American economy went through a similar phase, the economy here was in a period of temporarily induced inflation, but the present position is such that a recession in the United States could have marked repercussions on this side.

The Board of Trade returns for June and the Board's survey of the first half of this year show plainly that ground is being lost in dollar markets at a time when import liberalization has resulted in an increasing volume of dollar imports.

RATES AND PRICES

Closing prices, Wednesday, July 27th, 1960

Tax Reserve Certificates: interest rate (29.6.60) 3½%

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

May 20	£4 11s 1·69d%	June 24	£5 13s 7·40d%
May 27	£4 11s 1·53d%	July 1	£5 13s 6·14d%
June 3	£4 11s 1·39d%	July 8	£5 13s 3·06d%
June 10	£4 12s 1·79d%	July 15	£5 10s 2·49d%
June 17	£4 13s 7·34d%	July 22	£5 9s 9·27d%

Money Rates

Day to day	4-5½%	Bank Bills	
7 days	5-5½%	2 months	5½-5½%
Fine Trade Bills		3 months	5½-5½%
3 months	6½-7%	4 months	5½-5½%
4 months	6½-7%	6 months	5½-5½%
6 months	6½-7½%		

Foreign Exchanges

New York	2·80 11-11	Frankfurt	11·70 5-7
Montreal	2·73 1-1	Milan	1742 1-1
Amsterdam	10·58 1-1	Oslo	20·02 1-1
Brussels	140·17 1-1	Paris	13·75 1-1
Copenhagen	19·34 10-10	Zürich	12·09 1-10

Gilt-edged

Consols 2½%	44½	Funding 4% 60-90	87½
Consols 4%	66½xd	Savings 2½% 64-67	82½
War Loan 3½%	60½	Savings 3% 55-65	87½xd
Conversion 3½%	59½	Savings 3% 60-70	78xd
Conversion 3½% 1969	83½xd	Savings 3% 65-75	70½xd
Exchequer 5½% 1966	99½	Treasury 2½%	43½
Funding 3% 66-68	81½	Treasury 3½% 77-80	71½
Funding 3% 59-69	81½	Treasury 3½% 79-81	70½xd
Funding 3½% 99-04	64	Victory 4%	91½xd

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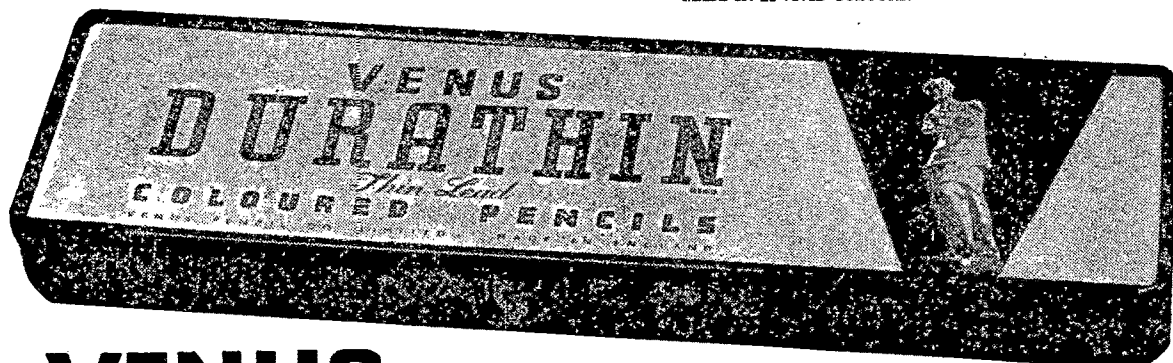
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Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Practitioners and the Revenue

SIR, - In their very interesting letter in your issue of July 16th, which undoubtedly reflects the experience of many provincial accountants, the 'Seventeen' say that the Commissioners 'tend to confirm the assessments if the accounts are not produced to the Inspectors within one month from the date of the meeting'. This sounds remarkably like a procedure which Inspectors in this part of the country asked for without much success.

At an appeal meeting the Inspector asked the General Commissioners to confirm the assessment, but to order that the confirmation be suspended for a stated period to enable accounts to be produced to him. If the accounts were not sent within the period the assessment would stand confirmed. The authority cited was *Hunt v. Joly*; but on study of the case, the words were found to be dicta only, and the procedure was not followed.

In my view, which enjoys the support of counsel's opinion, it is not possible as a matter of law for the Commissioners on appeal to arrive at a conditional or provisional determination. Such a procedure would lead to inescapable dilemmas. An appeal is either determined or it is undetermined. If it is determined, then the assessment has become final and can only be altered later by a decision of a higher tribunal (Section 50 (2)). If, on the other hand, it is undetermined then it can only be determined by the Commissioners at a meeting, notice of which they have given to the appellant, as required by Section 52 (1), or settled by agreement with the Inspector in terms of Section 510. There is no provision which allows it to be settled by lapse of time.

If the Commissioners were to give such a ruling and no accounts were forthcoming within the stated period, another dilemma would arise. Was the appeal determined; if so, when? Was it determined at the Commissioners' meeting? If so, it was final then. Was it determined at the end of the period, say a month after the meeting? If so, was another meeting held and was the appellant given notice so that he could attend? (Section 52). Again, at what precise point of time a month after the Commissioners' meeting would the appellant, if he so wished, *immediately* express his dissatisfaction to the Commissioners who heard the appeal? (Section 64 (1)).

Considerations such as these force one to the conclusion that it is wrong for the Revenue to ask Commissioners to adopt a course which leads to uncertainty. They cannot give a conditional or provisional determination. They can only give a final determination or an adjournment. Moreover they cannot bind those Commissioners who may be sitting at the next meeting, for who knows what may happen in the meantime.

A further point which should give Inspectors food for thought is what would happen under that procedure if the taxpayer persistently returned the demand note on the grounds that the assessment had not been determined. In a prosecution to obtain payment of the tax demanded, the burden of proof that the assessment had been determined would fall on him, under cross examination.

Yours faithfully,
G. W. B. HEXT.

Falmouth.

SIR, - The attack on the Inland Revenue by the 'Seventeen Provincial Accountants' (July 16th issue) merits serious consideration because in the midst of the attack can be seen the evidence for the Inland Revenue dissatisfaction with the profession.

I refer to the fact that the Inland Revenue have seen fit to raise questions which are on the face of it fully covered by 'perfectly clear and clean certificates' 'rendered in accordance with the Companies Act'.

I have never understood how the profession generally can, as it does, provide such unqualified certificates for small private companies where the affairs are substantially in the control of one or two men. Such companies lack the basic requirement of an audit. There is no internal check. The controller can do what he wants and be honest or dishonest as he wishes; in most cases the auditor cannot possibly tell one way or the other.

To meet these situations, accounts may be qualified in two ways: firstly, the shareholdings may be shown at the foot of the balance sheet just above the audit report; and secondly, the person from whom the explanations and information was received may be named.

Some years ago this kind of qualification sometimes resulted in a lengthy exchange of letters because the Inspector concerned was not able to appreciate straight away that there were no ulterior inferences. Recently, there have been no questions asked and perhaps the Inland Revenue have caught on to the idea that most small company audit certificates must be inaccurate unless qualified; hence the trouble for the 'Seventeen'.

The Inland Revenue administration must be about the best administration in the Kingdom. Revenue officers sign letters in their own name and on their own responsibility. Correspondence is usually dealt with by the same man. He can be spoken to in person or by phone. These advantageous procedures frequently do not apply in local government and the

London County Council, for instance, uses rubber signature stamps and insists on the anonymity of its officials.

Further, an Inland Revenue officer can be reported for misconduct and his superior officer – I only have experience of one case – will take action; if the complaint is less serious and merely a technical matter, the Board of Inland Revenue are not unhelpful, and certainly on more general matters the General Commissioners favour the taxpayer more than the Revenue in matters of doubt; fairer procedures could hardly be devised, and for all practical purposes the rule of law applies and the administrative powers are subject to judicial control.

Contrast this with the unbridled dictatorial powers which exist in town and country planning, and on reflection I am sure that most of us would want to leave well alone.

As I close this letter I can almost hear a certain Inspector of Taxes saying: 'And what about the mote in your own eye?' He may even think that more staff and larger fees would solve the problem – as it would. But my mote is still there, thanks to his benign patience!

Yours faithfully,
London, SW1. ANCRUM F. EVANS.

SIR, – 'Provincial F.C.A.' is, to judge from his letter in your issue of July 23rd, sadly out of touch with the facts.

The Chief Inspector of Taxes Branch of the Inland Revenue has been understaffed for the last fifteen years. It has kept reasonably up to date with its work only because Inspectors have been prepared to put in many hours of unpaid overtime and to sacrifice many days of their annual leave. Under these conditions no Inspector can afford to make extra work for himself by 'petty trifling'.

District Inspectors do not ask lightly for appeals in delay cases to be listed for hearing by the Commissioners. This course is only taken as a last resort when, usually after several months' waiting, all applications for the accounts or other information required to settle the appeal have failed.

Yours faithfully,
E. V. SYMONS,
President,
ASSOCIATION OF
HER MAJESTY'S INSPECTORS OF TAXES.
London, EC2.

Auditing Points

SIR, – In reply to 'Arcadia' (July 16th issue) let me suggest the following, assuming throughout that the company in question is subject to the United Kingdom Companies Act of 1948.

(1) As this is apparently a first appointment, the directors may legitimately appoint – not merely 'recommend' – an auditor, to hold office until the

conclusion of the first annual general meeting (Section 159 (5)). The auditor cannot commence work 'before his appointment', as he would have no right of access to the necessary information; once appointed, he may attend either 'monthly' or at whatever intervals he thinks fit.

Thanks to the stringent provisions of Section 160, it is a rarity for an auditor to be replaced before completing his duties, although the circumstances in which this may occur are dealt with in *The Accountant* of July 9th, 1960, page 46, paragraphs 194–195. In my opinion, *quantum meruit* would be available in such a case, but against the company rather than individual directors.

(2) Any such change in the basis of depreciation would have to be disclosed, either on the face of the profit and loss account or in a note, to satisfy the Eighth Schedule of the Act: otherwise the accounts do not give the information required by the Act in the manner so required, and the auditor must report accordingly. If the sole purpose of the change is to show increased 'divisible profits', it may well be said in addition that the accounts do not present a true and fair view of the profits of the year. Whether a dividend paid in such circumstances is 'invalid' is a matter for the Courts, but if the auditor has suitably qualified his report to the members it is unlikely that he would incur personal liability.

(3) The whole question of information coming to hand after the accounting date is covered by Recommendation 17 of The Institute of Chartered Accountants in England and Wales. In the case of current assets, such information is relevant only so far as may be necessary in forming an opinion upon assets whose value *at the date of the balance sheet* is in doubt. Subsequent events such as those instanced may affect the solvency of the business, but they do not concern the accounts upon which the auditor is reporting, and the time and manner of their disclosure to the members must be left to the directors' decision.

Yours faithfully,
M. BARRADELL, LL.B., F.C.A.
Pinner, Middx.

Treatment of Share Issue Expenses

SIR, – I was most interested to read your notes under 'Finance and Commerce' in the issue of July 16th concerning the accounting entries relative to share premium accounts, and in particular the conversion arising from the convertible loan stock issue based upon the accounts of our own company.

There is one point which may be of interest to students relative to the issue expenses inclusive of underwriting commission totalling £17,286. At the date when the loan stock was issued the company's capital reserves (as distinct from revenue reserves) were not large enough to permit the total issue expenses to be written off against the capital reserve at that date. The directors therefore decided that these expenses would be written off against share premium account following the first option conver-

sion period, and a statement to this effect was included in the directors' report attached to the 1958 accounts.

Yours truly,
for EDWARDS HIGH VACUUM LTD.
F. S. B. MURRELLS,
Financial Director.

Crawley, Sussex.

Caravans: Wear and Tear

SIR, - It has become a practice for persons, not caravan site owners or operators, to purchase and equip one or more caravans, usually at seaside official sites, and then to let such caravan(s) throughout the summer season. The rents obtained vary with the season, but average around eight to ten guineas per week.

Have any of your readers had experience of assessments being raised on the profits of such ventures, and if so, what wear and tear has been allowed on the caravans and their equipment?

Yours faithfully,
Tonyandy, Glam. G. W. LUCK, F.C.A.

Name-plates

SIR, - A rather unfortunate impression must be given to members of the public when they see firms of chartered accountants using a small overlay of the word 'Chartered' on their name-plates.

I feel that the integration with the Institute should really behove former members of the Society to buy a completely new sign.

Yours faithfully,
London, SW1. MERVYN FRANKEL.

Taxation Case

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

G.I.R. v. H. Dunning & Co (1946) Ltd

In the High Court of Justice (Chancery Division)

July 13th, 1960 - (Before Mr Justice CROSS)

Profits Tax - Director-controlled company - Director holding one share - Receiving patent royalty - Whether a distribution - Finance Act, 1947, Sections 35, 36.

The respondent company, a director-controlled company for profits tax purposes, and carrying on a light engineering business, had an issued capital of 1,000 shares. One of the directors, who was not a whole-time service director, held one share. This director patented an invention of his, and granted to the company a licence to manufacture and sell the patented article in return for a commission of £7 10s per cent of the selling price of each article. About nine months afterwards the licence agreement was terminated. The agreement was a genuine commercial one, under which the company got full consideration for the payments it made to the patentee. The payments from March 1st, 1955, to the end of the agreement came to £4,072.

It was contended by the appellants that the payments were distributions within Section 36 (1) (c) of the Finance Act, 1947. The Special Commissioners decided in favour of the respondent company.

Held: the payments were covered by the words 'or otherwise' in Section 36 (1) (c), and were therefore distributions.

DOUBLE TAXATION RELIEF ROYALTIES AND 'KNOW-HOW' PAYMENTS

CREDIT for overseas tax is ordinarily available only against income which arises or is deemed to arise in the overseas territory concerned. Where income consisting of royalties or 'know-how' payments is received by a United Kingdom resident from an overseas resident it has in some cases been doubtful what the position is under this rule.

The Inland Revenue have recently re-examined this question and have now decided that, while in particular cases there may be special circumstances which will require to be taken into account, they will in general be prepared to agree that such income may be dealt with as follows:

(a) Payments made by a person resident in an overseas country to a person carrying on a trade in the United Kingdom as consideration for the use of, or for the privilege of using, in the overseas country, any copyright, patent, design, secret process or formula, trade-mark or other like property may be treated for the purpose of credit (whether under double taxation agree-

ments or by way of unilateral relief) as income arising outside the United Kingdom except to the extent that they represent consideration for services (other than merely incidental services) rendered in this country by the recipient to the payer.

- (b) Traders resident in the United Kingdom will not be entitled to claim credit for any tax which is levied in the overseas country in respect of payments for services which are rendered here and are not merely incidental services. In any such case no objection will, however, be raised if only the net amount of the payments (after deduction of any overseas tax borne by them on the payments) is included in the computation of profits for United Kingdom tax purposes.
- (c) If the owner of a right such as a patent, trade-mark, or copyright is not engaged in any trade to which the right relates but derives income by exploiting the right, the source of the income may be regarded for the purpose of credit as located where the right has its existence.

For Students

TAXATION

Income Tax – Capital Allowances

Question

A company commenced to trade on January 1st, 1958. The accounts are made up for calendar years. Capital expenditure incurred up to December 31st, 1959, comprises:

Plant (basic rate 10 per cent)	£
Prior to commencement	6,000
March 31st, 1958	1,200
April 8th, 1958	1,000
September 30th, 1958	1,600
June 30th, 1959	2,400

Answer

CAPITAL ALLOWANCES COMPUTATION

	Plant 10%	Motor lorries 20%	Industrial building
1957-58:	£	£	£
Purchase prior to commencement	6,000		8,000
Purchase prior to April 6th, 1958	1,200	1,000	2,000
	<u>7,200</u>	<u>1,000</u>	<u>10,000</u>
Initial allowances	1,440	200	1,000
Annual allowances	225*	62*	200
	<u>1,665</u>	<u>262</u>	<u>1,200</u>
	5,535	738	8,800
1958-59:			
Purchases: April 8th, 1958	1,000		
September 30th, 1958	1,600		
	<u>2,600</u>		
	8,135		
Initial allowances:			
20 per cent of £1,000	200		
30 per cent of £1,600	480		
Annual allowances	1,017		
	<u>1,697</u>	<u>185</u>	<u>200</u>
	6,438	553	8,600
1959-60:			
Annual allowances	805	139	200
	<u>5,633</u>	<u>414</u>	<u>8,400</u>
1960-61:			
Sales, 1959		750	
Balancing charge		336	
		<u>1,086</u>	
Purchases, 1959 (all after April 7th)	2,400	1,200	1,000
Investment allowances	(20%) 480	(20%) 240	(10%) 100
	<u>8,033</u>	<u>1,200</u>	<u>9,400</u>
Initial allowance	(10%) 240	(10%) 120	(5%) 50
Annual allowances	1,005	300	220
	<u>1,245</u>	<u>420</u>	<u>270</u>
Carried forward	£6,788	£780	£9,130

*Note. – As the business was only carried on for three months in the fiscal year, the annual allowances in respect of plant and motor vehicles is one-quarter of the yearly figure. The same provision does not apply in respect of the annual allowance on industrial buildings.

COST ACCOUNTING

Variance Effect on Budgeted Profit

Question

The sales budget for the four-weekly period of a business manufacturing two main products is:

	Products						Total
	X.			Y.			
Sales – quantities	600			900			1,500
Standards:	s d £			s d £			£
Selling prices	20 0 600			15 0 675			1,275
Cost of sales	15 0 450			12 0 540			990
Profit	5 0 £150			3 0 £135			£285

The actual sales and prices realized in the four weeks ended March 28th, were:

Article X.	400 at 20s each
	100 at 21s each
	<u>500</u>
Article Y.	700 at 15s each
	100 at 12s 6d each
	<u>800</u>

From the above information, calculate the effect on the standard budgeted profit of the following variances:

- (i) sale price variance;
(ii) sales volume variance stating both:
(a) sales quantity variance; and
(b) sales mix variance.

Answer

STATEMENT DISCLOSING EFFECT OF VARIANCES ON STANDARD PROFIT

Four weeks ended March 28th							
Standard profit:		£	s	d	£	s	d
Products X. (600 at 5s)	..				150	0	0
Y. (900 at 3s)	..				135	0	0
					<u>285</u>	0	0

(i) Sales price variance

Products:

X. Price increase of 1s on 100 products ..	5	0	0
Y. Price decrease of 2s 6d on 100 products ..	12	10	0

7 10 0
277 10 0

(ii) (a) Sales quantity variance

Standard profit	£285
Expected profit:	
1,300 products	×
1,500 products	
£285	..

38 0 0

(b) Sales mix variance

Expected profit	247
Standard profit in actual sale ..	245

2 0 0

40 0 0

£237 10 0

Notes:

The actual sales are then the standard sales shown in the sales budget and the effect of this decrease is:

Product X.	decrease in sales 600-500=100	£
	Standard profit on 100 products at 5s	25
Product Y.	decrease in sales 900-800=100	
	Standard profit on 100 products at 3s	15

Total sales volume variance .. £40

This total variance is due to two factors (1) the total quantity of sales being less than expected, and (2) the relative quantity of X. and Y. products being in a different ratio from that of budgeted sales. An analysis of the total sales volume variance is obtained by calculating the sales quantity and sales mix variances.

CRICKET

Chartered Accountants v. The Law Society

For the first time since 1955 The Institute of Chartered Accountants in England and Wales won their annual match against the Law Society; the match, played recently on the Richmond Cricket Club ground, ended in a win by five wickets. The time lost by rain might well have deprived the chartered accountants of the advantage of the favourable situation in which they found themselves by mid-afternoon, but fine weather returned and they were able to get home with ten minutes to spare.

The Law Society won the toss and batted. The useful opening partnership between Sutton-Mattocks and Oakley of 35 was followed by an equally useful one of 45 between Oakley and de Lattre. By the time all three batsmen had been dismissed 99 runs were on the board. Apart from some spirited batting by Franks, the tempo remained quiet and after a short interruption by rain the score was taken to 157 for eight wickets, when the Law Society declared.

Walker and Rushton opened the Institute's innings, the former attacking the opening bowlers on a wicket freshened with rain. The tactics were successful and the first 50 runs came in 40 minutes. The result of the game now seemed hardly in doubt and after Mocatta and Eiloart were out Lattey batted steadily on until he was bowled with the score at 139. Stafford and Lang then hit off the remaining runs required. The scores were:

The Law Society

*T. M. Sutton-Mattocks, c. Mocatta, b. Gate ..	19
G. F. Oakley, c. Gate, b. Guthrie ..	46
R. de Lattre, c. Walker, b. Lattey ..	24
R. S. Levy, c. Rushton, b. Guthrie ..	10
P. Mallack, l.b.w., b. Lattey ..	8
S. Mundy, c. Guthrie, b. Bradley ..	10
†S. Franks, b. Gate ..	25
M. Hardcastle, b. Bradley ..	4
J. Jones, not out ..	2
V. G. Smith, not out ..	0
Extras (b. 6, l.b. 2, w. 1) ..	9
Total (for 8 wickets dec.) ..	<u>157</u>

D. Evans did not bat.

Bowling:

D. A. W. Bradley 15-9-28-2; G. W. Gate 10-2-27-2;	
J. E. A. Mocatta 4-0-13-0; A. C. Guthrie 12-6-20-2;	
D. B. T. Lattey 12-2-43-2; L. V. Scarlett 4-1-17-0.	

The Chartered Accountants

A. M. Walker, b. Hardcastle ..	37
†F. N. Rushton, c. Jones, b. Evans ..	9
D. B. T. Lattey, b. Evans ..	37
J. E. A. Mocatta, c. Franks, b. Hardcastle ..	21
I. R. Eiloart, b. Mundy ..	1
*T. B. Stafford, not out ..	30
S. R. Lang, not out ..	10
Extras (b. 8, l.b. 2, w. 3, n.b. 2) ..	15
Total (for 5 wickets) ..	<u>160</u>

Bowling:

M. Hardcastle 15-2-47-2; D. Evans 9-0-51-2; S. Mundy 7-2-25-1; J. Jones 52-0-21-0; T. Sutton-Mattocks 1-0-1-0.	
--	--

* Captain. † Wicket-keeper.

Electronics in the Office

E.D.P. in the Post Office

PRELIMINARY tests have commenced to convert the Post Office Savings Bank to book-keeping by electronic means, using automatic data-processing equipment. Already 360,000 bank accounts have been converted to an interim system of mechanization as a test of the practicability of the scheme. The plan has been proposed by a Post Office study group which commenced investigations in 1958 into the accounting system of the bank.

Owing to the cost of conversion and to the complexity and scope of the task, the group have recommended that conversion should be carried out in two stages. They were faced with the fact that the present method did not lend itself to conversion to the latest system of electronic accountancy and they had also to consider the major problem of changing over to a new form of book-keeping, 37 million accounts, with deposits totalling £1,645,569,000, and with 500,000 daily transactions.

In the first stage, a short-term mechanization scheme based on the latest type of multi-register keyboard accounting is to be introduced, and a trial run of this system has already been commenced which it is believed will take about eighteen months to complete.

Advantages claimed for mechanization include: abolition of the mass of repetitive work now carried out by clerks, changing the present book-keeping system into one suited for future conversion to electronic accounting with automatic data-processing machines, and making it possible for the liability for interest due to depositors in the Savings Bank to be known immediately at the end of the year.

A study of the problems involved in the final stage, complete conversion to electronic accounting, is to commence in about six months time. It is considered that the final stage of mechanization will take seven or eight years to complete.

Sorting Cheques by Automation

AN electronic cheque-sorting machine was recently stated to have sorted more than five million cheques without making a mistake at the National Newark and Essex Bank in New Jersey, U.S.A. Produced by the National Cash Register Co, the machine used the magnetic character recognition system approved by the American Bankers' Association and now being closely studied by the Electronics Sub-Committee of the London clearing banks.

Cheques with the account number printed in magnetic characters have been issued to a group of the bank's customers and within the next twelve months all depositors will receive them. Later, deposit slips will be handled in the same way. The bank previously spent about 40,000 man-hours every year on hand-sorting cheques. Now it expects to cut this time by nearly 95 per cent. Over thirty of these machines are already working in American banks and by early 1961 over 150 electronic sorters of this type are expected to be in operation there.

American bankers, now heavily committed to this

form of automation, are showing great interest in the operational results reported by the Newark bank. There have been fears that, despite the impressive sorting speeds achieved by manufacturers under ideal test conditions, difficulties might occur when the equipment had to handle 'live' cheques which had become creased or marked. It was found, however, that rejects, mostly caused by 'foreign' materials in a few cheques, amounted to less than one in 1,000. Such items were automatically rejected by the machine without holding up the flow of work. The automation programme in this bank commenced more than two years ago, when it installed a battery of electronic cheque-posting machines. Future developments are centred on the fact that the cheque sorter not only automates the physical sorting job, but is a vital link in the complete automation of bank book-keeping procedures. For while it is sorting cheques, it can also record information on either punched paper tape or magnetic tape, or feed it straight into an electronic computer which automatically prepares depositors' statements and records.

A.B.C. of 'Electronic Brains'

ALTHOUGH by now there are many elementary introductions to computers, there can be few as interesting and easy to read as *The A.B.C. of 'Electronic Brains'*, by Leon Bagrit, deputy chairman and managing director of Elliott-Automation Ltd.¹

Mr Bagrit's booklet, which originally took the form of a series of six talks broadcast in the External Service of the B.B.C., explains how computers work and to which applications – both in science and industry – they are most suited. Apart from general applications and such established ones as payroll preparation, it is emphasized that special purpose computers are available for such tasks as sales analysis.

Although the use of the term 'electronic brain' might be queried, the author justifies its retention in the title because computers 'can and do arrive at results that a human being arrives at only by using his brains'. Be that as it may, the booklet is really most useful for students since it is the work of a layman written with the close help of his technical advisers. Such co-operation has resulted in fluency of expression and technical accuracy to an extent seldom realized in publications of this type. Many excellent diagrams and photographs accompany the text.

Computer for Insurance Company

AN IBM 1401 electronic computer has been ordered by the Yorkshire Insurance Co Ltd to extend and improve the company's present system of mechanization.

In both life and non-life departments the preparation of renewals and statistics will be facilitated, and it will be the intention to partially mechanize the agency accounting procedure. Life calculations and other actuarial work will be undertaken on the new computer.

¹ B.B.C. Publications, Marylebone High Street, London, W1. Price 1s 6d.

In Parliament

Company Law: Jenkins Committee

Mr JOHN HALL asked the President of the Board of Trade when the Jenkins Committee will have completed their inquiries into company law.

Mr J. RODGERS: The Committee has a heavy task before it and it will clearly be a considerable time before we can expect its report.

Hansard, July 19th, 1960. Written Answers. Col. 20.

Inland Revenue Department: Staff

Mr PEYTON asked the Chancellor of the Exchequer why the staff of the Inland Revenue Department has increased in each of the last three years.

Mr AMORY: The principal reason has been the increasing work in local offices of H.M. Inspectors of Taxes, due mainly to an increase in the number of taxpayers. An additional cause in the last year has been the beginning of preparatory work in local valuation offices for the rating revaluation which is to take effect in 1963.

Hansard, July 19th, 1960. Written Answers. Col. 22.

Plowden Committee

Mr GRIMOND asked the Chancellor of the Exchequer to what extent the Plowden Committee is inquiring into the organization of the Treasury and budgeting methods.

Mr AMORY: So far as the hon. gentleman refers by the words 'budgeting methods' to the control of Government expenditure, this is under inquiry by Lord Plowden's Committee. The recommendations of that Committee may well have a bearing on the organization of the Treasury.

Hansard, July 19th, 1960. Written Answers. Col. 23.

Public Expenditure: Control

Mr GRIMOND asked the Chancellor of the Exchequer when he expects to be able to announce improved Treasury supervision over administrative expenditure.

Mr AMORY: If the hon. Member's question relates to the review of the methods of control of public expenditure at present being undertaken it is too soon to say when the Government will be able to report to the House.

Hansard, July 19th, 1960. Written Answers. Col. 23.

Tuesday, December 27th, 1960: Public Holiday

Mr SHEPHERD asked the Chancellor of the Exchequer whether Her Majesty's Government proposes, in view of the fact that Christmas Day falls on a Sunday this year, to declare Tuesday, December 27th, 1960, a public holiday.

Mr AMORY: Her Majesty's Government have

decided to request Her Majesty The Queen to declare by Royal Proclamation under the Bank Holidays Act, 1871, and other Acts, that Tuesday, December 27th, 1960, shall be a bank and public holiday in England and Wales and in Northern Ireland.

Hansard, July 19th, 1960. Written Answers. Col. 24.

Small Businesses: Compensation for Disturbance

Mr AWBERY asked the Minister of Housing and Local Government and Minister for Welsh Affairs if he is aware that under compulsory purchase orders the compensation for the loss of trade to small traders is based on the turnover in the shop on the day that the order is confirmed and not on the day it is approved and that between these two dates a considerable number of removals take place from the area, so reducing the amount of trade; and if he will take steps to base the compensation on the date of approval and not on the day of confirmation.

Mr H. BROOKE: Many factors enter into the assessment of compensation for disturbance paid to the occupiers of small businesses. The statutory intention is that the compensation paid shall reflect the real loss sustained, and I understand that every effort is made in the process of assessment to ensure that all relevant considerations are taken into account. If a trader is not satisfied with the amount of compensation offered, he may appeal to the Lands Tribunal.

Hansard, July 19th, 1960. Written Answers. Col. 27.

Post-war Credits

Mrs CASTLE asked the Chancellor of the Exchequer whether he will arrange for claims for the apportionment of post-war credits between husband and wife to be entertained outside the time limits laid down in the statutory regulations in those cases where the wife is later separated from her husband.

Mrs EMMET asked the Chancellor of the Exchequer whether he will make arrangements whereby claims to apportionment of post-war credits made outside the prescribed time limit will be accepted in cases where the husband and wife have been divorced or are legally separated.

Mr AMORY: In future, claims to apportionment of post-war credits will be accepted outside the time limit from wives who are divorced or legally separated from their husbands in cases where the full credit has not already been paid before the apportionment is made. They will then be able to obtain repayment of their part of the credit when they satisfy the conditions.

Hansard, July 19th, 1960. Oral Answers. Col. 242.

£ Sterling: Purchasing Value

Mr DE FREITAS asked the Chancellor of the Exchequer whether he is aware that, taking the internal purchasing value of the £ sterling as 20s in October 1951, it had declined to 18s 1d in June 1954 and to 15s 11d in June 1957; and what was the comparable figure for June 1960.

Mr BARBER: Yes, on the basis of the index of retail prices. The comparable figure for June 1960 is 15s 2d.

Hansard, July 22nd, 1960. Written Answers. Col. 67.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

President's Luncheon

The President of the Institute, Mr S. John Pears, and the Vice-President, Mr P. F. Granger, gave a luncheon party last Wednesday at *The Dorchester Hotel*, London. The guests were The Lord Ritchie of Dundee, Lord Reith, Sir Roger Makins, Sir Harry Pilkington, Sir William Strath, Mr W. L. Barrows, Mr W. H. Lawson, Mr C. U. Peat, Mr H. A. Benson and Mr Alan S. MacIver.

PROFESSIONAL NOTICES

MESSRS THATCHER & PAYNE, Chartered Accountants, of Swansea and Carmarthen, announce that as from July 1st, 1960, the practice will be carried on by Mr R. J. PAYNE, F.C.A. Mr J. M. WEAKS, A.C.A., will continue to be associated with the firm.

MESSRS AGAR, BATES, NEAL & Co, Chartered Accountants, of 106 Edmund Street, Birmingham, announce that Mr DAVID NASH WILLIAMS, M.A., A.C.A., who has been with the firm for some years, has been admitted to partnership.

MESSRS SWANWICK, TERRAS & Co, Chartered Accountants, of 64 Cross Street, Manchester, announce that Mr W. SCOTT, F.C.A., retired from the firm as at May 31st, 1960, but continues to be available in a consultative capacity. They also announce that Mr A. M. TERRAS, B.A.(COM.), A.C.A., has been admitted as a partner as from June 1st, 1960.

MESSRS CARTER, CHALONER & KEARNS, Chartered Accountants, of Canada House, 3 Chepstow Street, Manchester, 1, announce that as from June 17th, 1960, they have taken into partnership Mr E. T. BUSH, A.C.A., Mr T. E. CARO, A.C.A., Mr A. HAGUE, A.C.A. The name of the firm remains unchanged.

MESSRS BLICK ROTHENBERG & NOBLE announce that as from July 1st, 1960, Mr A. N. HOMBURGER, B.COM., C.A.(S.A.), A.S.A.A., A.C.W.A., was admitted to partnership. The name of the firm remains unchanged.

Appointments

Mr E. G. Goold, B.SC.(ECON.), F.C.A., A.C.W.A., has been appointed a director of George Longden & Son Ltd.

Mr S. R. Hogg, D.S.O., M.C., F.C.A., has been invited to join the board of Land & General Developments Ltd and has accepted.

Mr H. B. T. Wilde, F.C.A., has been appointed chairman of Smith's Stamping Works (Coventry) Ltd.

Mr S. H. Robinson, B.COM., F.C.A., has been appointed an alternate director of Amalgamated Banket Areas Ltd, and Ghana Main Reef Ltd.

Mr W. N. Herald, F.C.A., and Mr C. L. Turnbull, O.B.E., F.C.A., have been appointed directors of Melbourne Brewery (Leeds) Ltd.

Mr J. E. H. Davies, M.B.E., F.C.A., has been appointed a director of B.P. Trading Ltd.

Mr A. H. B. Bangham, T.D., F.C.A., has been appointed to the London Board of United Dominions Corporation (Australia) Ltd and United Dominions Corporation (South Pacific) Ltd.

Mr S. G. Deavin, O.B.E., F.C.A., secretary of the North-western Gas Board, has been appointed a whole-time member of the board.

Mr S. C. Hand, F.C.A., has been elected chairman of the executive committee of the National Federation of Property Owners.

Mr H. J. Webster, A.C.A., has been appointed a director of Old Broad Street Securities Ltd.

OBITUARY

George Wellesley Drake, F.C.A.

It is with regret that we record the death on July 17th of Mr George Wellesley Drake, F.C.A., who, until his retirement in September 1955, was senior partner in the firm of Hart Brothers, Drake & Co (now Hart Brothers, Reddall & Co), Chartered Accountants, of London.

Mr Drake was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1908 and was elected to fellowship in 1928. He entered into partnership with the late Mr Edward Hart, F.C.A., in 1922.

COMPANY INVESTIGATION

Mr Duncan McKellar, O.B.E., C.A., a partner in the London firm of Messrs Thomson McLintock & Co, Chartered Accountants, and Mr Malcolm John Morris, Q.C., have been appointed by the Board of Trade, under Section 165 (b) of the Companies Act, 1948, as inspectors to investigate the affairs of Mambau (F.M.S.) Rubber Co Ltd.

OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade have announced the following appointments:

Mr William John Llewellyn has been appointed an assistant official receiver for the bankruptcy district of the County Courts of Cardiff and Barry, Blackwood, Tredegar and Abertillery, Newport (Mon.), Pontypridd, Ystrad-fodwg and Porth, and the bankruptcy district of the County Courts of Swansea, Aberdare, Aberystwyth, Bridgend, Carmarthen, Haverfordwest, Merthyr Tydfil, Neath and Port Talbot, with effect from July 11th, 1960.

Mr Reginald Basil Wood has been appointed an assistant official receiver for the bankruptcy district of the County Courts of Croydon, Guildford, Kingston upon Thames, Slough and Wandsworth, also for the bankruptcy district of the County Courts of Aylesbury, Banbury, Brentford, Chelmsford, Edmonton, Hertford, Newbury, Oxford, Reading, St Albans and Southend, as from July 18th, 1960.

JOHN FOORD & COMPANY

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

GRADUATED PENSION SCHEME**Miscellaneous Provisions**

The Minister of Pensions and National Insurance has made regulations¹ dealing with such matters as the refund of graduated contributions wrongly paid; and the liability for flat-rate contributions where a person has two employments in the same week, in one of which he has been contracted-out of the graduated scheme as a member of an approved occupational pension scheme. The regulations also set out which contribution provisions in the regulations of the present flat-rate scheme are to apply to graduated contributions.

Commencement Order

Now that the main regulations required to complete the structure of the new graduated contribution and retirement pension scheme have been made, the Minister of Pensions and National Insurance has made the commencement order necessary to introduce the National Insurance Act, 1959, in April 1961.

The order² provides that the flat-rate contributions will start to be paid from April 3rd, 1961, and the graduated contributions from April 6th, 1961.

INTER-FIRM COMPARISONS

The first inter-firm comparison of management ratios to be carried out in the United Kingdom food industry, bedding industry and scientific instruments industry is to be undertaken by the Centre for Inter-firm Comparison in association with the Food Manufacturers' Federation, the National Federation of Bedding and Allied Trades and the Scientific Instrument Manufacturers' Association. Companies taking part will contribute key figures on return on capital, profitability of sales, turnover of capital and costs.

The results will be issued to all those participating in the form of a report which will enable a company to compare its performance with that of similar companies. No information will be given in the report which would in any way enable the identity of a company to be ascertained.

A considerable number of companies in the three industries have already joined the scheme which will shortly be put into operation.

O.E.E.C. ECONOMIC SURVEYS

Two further booklets in the 1960 series containing economic surveys of the Netherlands and Portugal, have recently been published by the Organization for European Economic Co-operation. The booklets are available from H.M. Stationery Office, price 2s 6d each.

¹ The National Insurance (Graduated Contributions and Non-participating Employments - Miscellaneous Provisions) Regulations, 1960. S.I. 1960, No. 1210. Price 6d.

² The National Insurance Act, 1959 (Commencement) (No. 2) Order, 1960, S.I. 1960, No. 1215 (C.10). H.M.S.O. Price 2d.

LOCAL LOANS RATES

Loans advanced to local authorities from the Local Loans Fund as from July 16th, 1960, will carry the following rates of interest:

	Per cent	
Loans for not more than five years ..	6½	(5½)
Loans for more than five years but not more than fifteen years ..	6½	(6)
Loans for more than fifteen years but not more than thirty years ..	6½	(6)
Loans for more than thirty years ..	6	(5½)

The former rates of interest (shown in brackets) had been in force since January 30th, 1960. The new rates apply only to fresh loans; the rates of interest on old loans are unaffected.

WOMEN CHARTERED ACCOUNTANTS' DINING SOCIETY

On the occasion of the Soroptimist International Convention recently held in London, the Women Chartered Accountants' Dining Society gave a reception on Monday evening in the Hall of the Worshipful Company of Innholders.

Miss Margaret Fox, F.C.A., Chairman of the Society, welcomed the guests - many of whom were lady visitors from overseas - and Mr Colin Wood, M.A., Deputy Master of the Innholders' Company (in the unavoidable absence of the Master of the Company, Mr G. R. Appleyard, F.C.A.), gave an interesting account of the history and present-day work of the City livery companies. Miss D. M. Vaughan, B.A., F.C.A., expressed the guests' thanks to Mr Wood and to the Innholders' Company for their kindness in making their lovely Hall available for the occasion and for displaying many beautiful examples of their silver. An enjoyable evening concluded with the showing of two colour films depicting National Trust properties and the Weald of Kent.

GOLF**Chartered Accountants' Golfing Society**

The Chartered Accountants' Golfing Society played its annual match against the Chartered Municipal Treasurers at West Hill Golf Club on June 30th. The course was in excellent condition and the weather was kind.

The teams consisted of five pairs each and ten four-some matches were played. The result was a win for the chartered accountants by eight matches to two. Results (chartered accountants' names first):

Morning

- H. W. Claxton and J. B. Pittman lost to D. G. Webber and D. H. Crisp, 5 and 4.
- M. A. P. Gay and J. P. Isherwood beat A. B. Ridley and G. C. Jones, 2 and 1.
- E. Head and C. I. Steen beat J. W. Hough and F. Wilson, 2 up.
- R. A. Daniel and A. W. Coleman beat K. Hyde and B. Quick, 8 and 7.
- L. V. Mills and S. W. Penwill beat A. Shiner and N. Bennington, 2 and 1.

MOTOR — FIRE — CONSEQUENTIAL LOSS

CAR & GENERAL INSURANCE CORPORATION LTD

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Afternoon

Claxton and Daniel beat Jones and Hough, 3 and 1.
Gay and Head beat Quick and Bannington, 2 up.
Pittman and Coleman beat Ridley and Shiner, 3 and 2.
Isherwood and Mills beat Webber and Hyde, 4 and 2.
Steen and Penwill lost to Crisp and Wilson, 5 and 3.

Manchester and Liverpool Societies

A golf match between the Manchester Society of Chartered Accountants and the Liverpool Society of Chartered Accountants at the Wilmslow Golf Club, Cheshire, on July 14th, resulted in a tie, each side scoring two and a half matches.

Manchester

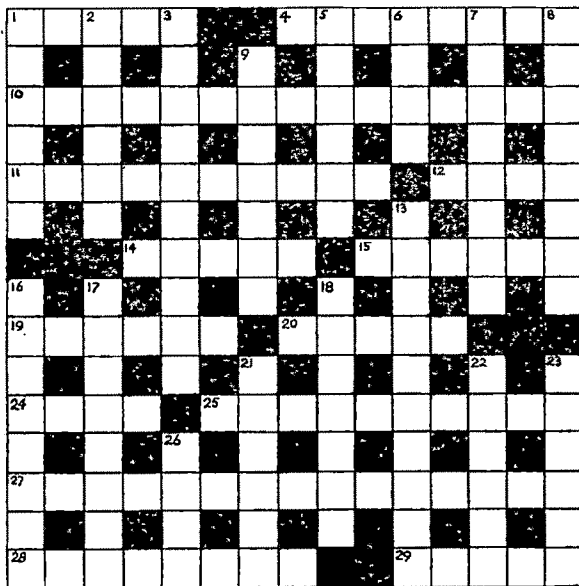
A. Eglin	$\frac{1}{2}$
A. F. Kearns	
H. V. Newton	0
E. Morris-Jones	
J. G. Worrall	1 (4 and 3)
F. R. Terras	
G. Ainscow	0
V. Matthews	
G. Barlow	1 (4 and 3)
F. A. Sherring	—
	$2\frac{1}{2}$
	==

Liverpool

J. M. Harvey	$\frac{1}{2}$
V. A. Sola	
F. D. M. Lowry	1 (2 and 1)
J. L. Hughes	
P. Jeffery	0
W. S. Wicks	
L. D. Hayward	1 (5 and 4)
J. G. Hurst	
W. A. Airey	0
R. C. Johnston	—
	$2\frac{1}{2}$
	==

BANK HOLIDAY CROSSWORD

Compiled by Kenneth Trickett, F.C.A.



ACROSS

1. Coins comprising a thousand in stamps (5).
4. His functions may be exercised by the surveyor or the collector (8).
10. The Court may grant these to the Receiver where necessary to preserve the business (*Greenwood v. Algeiras Railway Co*) (9, 6).
11. Bought in more than could be sold or paid for (10).
12. See 9 down.
14. The advance that ends the Government's financial year (5).

15. The surrender of a legal claim is mere disturbance (6).
19. Cancelled the crossing with pen in dictionary (6).
20. Tainted offering (5).
24. Transact business in crude lead (4).
25. Does he give his wares away? (4-6).
27. Where dutiable goods are stored (6, 9).
28. His liability is defined in Section 55 (2) of the Bills of Exchange Act, 1882 (8).
29. Please cut short the suits (5).

DOWN

1. Rubbish and place for lying upside down could be an asset (6).
2. German coin and French used for trading (6).
3. Having little time to run (5-5).
5. The assessments shall be ——— by the Additional Commissioners and shall thereupon become effective (Section 36 (6), Income Tax Act, 1952) (6).
6. Personal rep., formerly heraldic gold (4).
7. Such a legacy was described in *Robertson v. Broadbent* (8).
8. Determined, at a company meeting perhaps (8).
- 9 & 12 across. It contains the budget proposals and may be drawn for temporary accommodation (7, 4).
13. The registration fee payable by a company not having a share capital is determined by reference to this (10).
16. Epithet for infant's contract of tenancy or partnership (8).
17. Kept in custody, by the sheriff possibly (8).
18. . . . the amount unpaid shall be deemed to be ——— of tax . . . (Section 64 (10), Income Tax Act, 1952) (7).
21. He must be indicated with reasonable certainty (Section 6, Bills of Exchange Act, 1882) (6).
22. Solemnly charge on oath (6).
23. Concise direction for the instruction of counsel (6).
26. He sells for future delivery (4).

(The solution will appear in next week's issue.)

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THE ACCOUNTANT

ESTABLISHED 1874

AUGUST 6TH, 1960

VOL. CXLIII. NO. 4468

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The Finance Act, 1960

ON July 29th, the Finance Act, 1960, received the Royal Assent, after having gone through more changes than any previous Finance Bill has suffered. It began as an eighty-page document, which reached the statute book with ninety-eight pages. But what is particularly remarkable is that the vast bulk of the extensions was made on the report stage, and, moreover, with very little notice to the House of Commons. At the conclusion of a long and arduous committee stage the length of the Bill was extended from its original eighty pages to only eighty-five; a further fourteen pages were added at the instance of the Government in a very brief report stage which was totally inadequate for proper examination or discussion of the additions. This is perhaps one of the weaknesses of what is effectively a two-party political system. The Government second (or rather third) thoughts were couched in language so verbose and so obscure that they were practically all passed on what has come to be known as 'a nod of the head'. It was impossible for more than a tiny handful of M.P.s to have an inkling of what these hasty amendments meant, and they were accepted blindly. The ordinary taxpayer cannot hope to know what they mean; it will tax the ingenuity of accountants and lawyers specializing in taxation to understand them, let alone to devise means of coping with them.

It is in the forty-one pages of Part II, which is devoted to income tax, that one finds the most involved provisions, particularly in the thirty-three pages taken up by Sections 21 to 38, which are directed against avoidance of various kinds. We have dealt with most of these provisions in a series of leading articles which we hope have been of assistance in bringing a glimmer of light into the darker parts of the Act. Sections 25 and 26, which deal with manipulations of assets between associated companies, will be the subject of a further article in the near future.

Part III introduces a new penalty code for both income tax and profits tax purposes and contains some very involved provisions dealing with the extent to which the Inland Revenue can and cannot bring into charge tax which has been underpaid after the normal time limits have expired. Although some of the harsher aspects of the old penalty provisions have been removed, the net result of the changes is considerably to strengthen the hands of the Inland Revenue against a taxpayer who years ago failed to make a correct return. This change is of particular interest to those who buy a controlling interest in companies. The hazards of those buying land subject to disadvantages of which they are unaware are as nothing to the hazards undertaken by a person who pays

handsomely for the controlling interest of a company having substantial assets, only to find eventually that all those assets disappear into the Exchequer owing to some neglect of some official who rendered its income tax returns years ago.

Another remarkable feature of the Act is that Sections 64 to 66, which make up Part IV and deal with estate duty, are all directed to reducing the burden of that duty, although only in a very minor way. It is perhaps not surprising that when the draftsman confers a benefit which the Government have decided to grant, he hedges it about with all kinds of restrictions and provisos, whereas when the Government take powers to combat some particular type of avoidance, the powers are couched in the widest and most searching terms, so that they cause more trouble to the innocent than to the guilty.

The absurdities inherent in the extension to five years of the *inter vivos* gift and cognate provisions, from their original three months, have at last persuaded the Government to grant relief where the donor or other person fails to survive for five years but does survive for two years. As far as it goes, and it does not go very far, this change effected by Section 64 will, it is hoped, be the precursor of further changes in the same direction. The law as amended still leaves a great deal of room for hardship, particularly where a donee of limited means receives a gift from a person who dies within five years and whose rate of estate duty is very high. Section 65, introduced at the committee stage, makes a corresponding change in the case of duty charged on a company under Section 46 of the Finance Act, 1940, in respect of benefits to which the deceased was entitled within five years of his death. However, as this section is very rarely applied the change is unlikely to bring much relief.

The much criticized Section 55 is itself altered by Section 66 of the new Act, which provides in effect that when valuing shares or debentures under Section 55 the underlying assets of the company are to be valued on a 'going concern' basis, not on break-up value. Section 66 (1) directs that the assets be valued on the footing that the notional sale by reference to which the value is arrived at is a sale of the whole business subject to an enforceable restriction that the assets are to be used or occupied only for the purposes of that business. However, this new dispensation

does not extend to companies dealing in securities, shares, land or buildings, or to investment companies, in relation to those assets. Section 66 (3) limits the extent of the relief. The valuation is not to be less than the lower of

- (a) a valuation of the shares or debentures on the normal basis under Section 7 (5) of the Finance Act, 1894; or
- (b) a valuation under Section 55 ignoring Section 66 of the new Act.

It is a relief to turn from the complexity of the provisions of this type to the four-line Section 67 which with a refreshing economy of language increases the rate of profits tax from 10 per cent to 12½ per cent, thus increasing industry and commerce's contribution to the Exchequer with the minimum of administrative inconvenience, although of course the financial burden is considerable, particularly as profits is not a permissible deduction in arriving at profit for income tax purposes. In its ultimate effect profits tax works particularly harshly against the person of modest means who invests in ordinary shares. The income tax he can recover, but in so far as profits tax reduces his dividend, as it must, he loses this for ever. One is naturally prompted to ask what is the justification for a double tax on company profits; what is the logic of it? When a company's profits are made the subject of a surtax direction it is normally exempted altogether from profits tax. Shares would be a much more popular vehicle for the small man's savings if the profits tax were abolished.

However, Sections 69-71 take a step in the opposite direction. Section 70 provides for the imposition of profits tax on authorized unit trusts, the trustees being treated as a body corporate ordinarily resident in the United Kingdom. Section 69 (1) provides that in respect of the income of such unit trusts the Income Tax Acts are to apply as if the trustees were a company resident in the United Kingdom, carrying on the business of making investments. Section 69 (2) (a) provides that sums periodically appropriated out of income arising to the trust for managers' remuneration shall be treated for the purposes of a management expenses claim as expenses of management. There is no requirement that it be reasonable in amount, or wholly or exclusively incurred.

COMPANY LAW COMMITTEE

Scottish Institute's Memorandum

THE memorandum of evidence submitted to the Jenkins Committee on Company Law by The Institute of Chartered Accountants of Scotland is an extremely useful document. We are reproducing it in this and the next issue. The Institute played a leading part in the submission of evidence to the Law Reform Committee for Scotland on the constitution of security over movable property and on floating charges, which were the subject of the Eighth Report of that Committee (see *The Accountant* of July 9th, 1960, at page 48).

Of particular importance, of course, in the present memorandum, is the part which deals with accounts and audit (to be included in the reproduction in these pages next week).

As the memorandum observes, the historical *versus* replacement cost problem 'has been widely discussed for many years and no unanimity . . . has yet emerged'. For its part the Institute reiterates its views about accounting in relation to changes in the purchasing power of money - views which were published in 1953 and are reproduced again as an appendix to the memorandum. It thinks it would be neither desirable nor practical to require any form of revaluation of fixed assets. However, it does consider that the Companies Act should require some better description of fixed assets than that required at present. The compromise solution put forward is that if the assets are not all shown at valuations made within the last fifteen years, then the figures for assets acquired outside that period should be shown separately.

The question whether a company can properly declare dividends out of an unrealized surplus on capital assets is a constant source of doubt which ought to be finally cleared up. The Institute's solution is simply that the Act should forbid such dividends. The memorandum follows up this recommendation with a penetrating examination of the vexed topic of pre-acquisition profits of subsidiaries. As the memorandum says, dividends from subsidiaries out of pre-acquisition profits are regarded by accountants in general as not available for distribution in dividend by the

acquiring company. We are in agreement with the view that this is purely a matter of accounting convention, not a legal prohibition. It is true that paragraph 15 (5) of the Eighth Schedule points somewhat the other way but in our view this arises because the draftsman wrongly assumed that there was a legal prohibition and cast the paragraph accordingly. No one could quarrel with the Scottish Institute's recommendation that the doubt be cleared up.

The logical step is to give accountancy convention the force of law on this point, and that is what the memorandum recommends. It points out quite rightly that the prohibition should refer to dividends from the subsidiary, not to its profits, since the profits, as such, of a subsidiary are not in any case available for distribution by the holding company until they have been received from the subsidiary in the form of dividend. The new express prohibition would not extend to an amalgamation, where the shareholders before and after the amalgamation were substantially the same.

It is interesting to read in the memorandum that the Eighth Schedule does not expressly permit the showing of future taxation on profits actually earned as a separate item, neither a reserve nor a liability. Paragraph 4 (1) of the schedule refers to 'reserves, provisions, liabilities . . .' but the definitions of the first two items, in paragraph 27, make it doubtful where the draftsman intended the item for taxation on an assessment based on current profits should appear on the balance sheet. The Scottish Institute would cut this Gordian knot by a provision that any item which did not fall into the existing (inadequate) classifications should be shown separately with an appropriate description. In statutory provisions which are supposed to assist shareholders to know what is going on, it is not very helpful to define expressions in a way which can be misleading. 'Provision' has the ring of something of a very general nature, and many laymen would be surprised to learn that the statutory definition confined it to two categories with very little in common: depreciation of assets; and liabilities

which cannot be quantified, meaning by liabilities actual liabilities, not future ones.

The exemption for banks and the like from many of the accounting requirements of the Eighth Schedule, coupled with the requirement in the Ninth Schedule that the auditor must report whether the accounts of such a company give 'a true and fair view', call forth from the Scottish Institute a criticism similar to that made by the English Institute. It confesses difficulty in seeing how in any sense a 'true and fair view' can be produced when, for example, the disclosed results are distorted by exceptional items and changes in the basis of accounting, or (echoes of the *Kylsant* case) profits have been arrived at after the transfer of unspecified sums to and from reserve.

In common with its English counterpart, the Scottish Institute would like to see the names of recognized accountancy bodies appearing in the Companies Act. These names do, of course, appear in certain other Acts imposing a requirement to employ auditors holding recognized

qualifications. The two Institutes are also at one in thinking that persons with high overseas qualifications should not be classified in the Act along with persons having no qualification. The vast majority of companies are 'exempt private companies' and as such, are exempt from the requirement to have a professional auditor although in fact very few of them exercise this privilege. 'Auditing', says the memorandum, 'is a highly technical function and an audit carried out by a layman may be worse than no audit at all. . . . Public policy requires a professional audit for all companies.' Here again there is unanimity between the two Institutes.

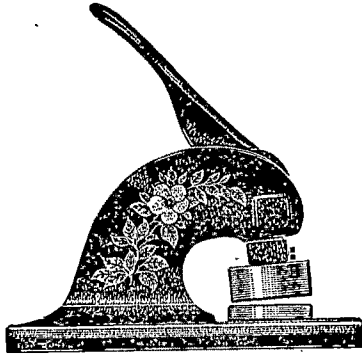
We particularly welcome the Scottish Institute's observations on non-voting equity shares, in particular the criticism of the practice of describing such shares by a euphemism like 'A Ordinary'. The memorandum recommends in a very forthright manner that no new shares of this kind should be allowed and that the existing ones should be so described as to make it clear that they carry restricted or no voting rights.

Institute of Directors' Views

OF the recommendations contained in the memorandum of the Institute of Directors to the Jenkins Committee, those which are most likely to be of general interest relate to take-over bids. Those who feel that there are good reasons for keeping such transactions under fairly strict control are likely to agree with the Institute of Directors that the satisfactory code of conduct which is at present observed in almost all cases should be adopted universally and that that code could conveniently be laid down in a revised Companies Act; also that the principal requirements are to ensure that (a) shareholders and directors have enough time and information to make the necessary decisions; (b) there is a reasonable certainty as to the ability of the bidder to comply with his undertakings; and (c) the bidder's identity is disclosed. The recommendations, if adopted, should result in these requirements being met.

Take-over bids is only one of many aspects of company law considered in the memorandum. Of the others, one of the most interesting is the application to company law of the *ultra vires*

doctrine. It is perhaps going a little far to say that it is generally accepted that the doctrine can cause injustice to those dealing with a company, because a creditor may find that his claim is invalid by reason of the purpose for which he has supplied goods being outside the company's powers; for the means of ascertaining whether or not a particular transaction is *intra vires* is always available. But the need to refer to the memorandum and articles of association is clearly inconvenient and it is arguable that the doctrine in its application to limited companies serves little useful purpose. There is likely, therefore, to be extensive support for the recommendation that as regards third parties, a company should have the same powers as an individual, notwithstanding anything omitted from its memorandum, and accordingly that the *ultra vires* doctrine be abolished; but that the directors be liable to the company for any loss caused to it by any act or thing done or suffered by the company not within the objects of the memorandum, unless there shall have been ratification of such act in general meeting.



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More About 'Know-how'

ROLLS-ROYCE AND EARLIER DECISIONS COMPARED

CONTRIBUTED

IN an earlier article¹ the writer discussed the broad legal basis upon which 'know-how' rests and the analogy which it bears to patents and copyright, with particular reference to the decision of the House of Lords in *Moriarty v. Evans Medical Supplies Ltd* (36 A.T.C. 277), sub nom. *Evans Medical Supplies Ltd v. Moriarty* (37 T.C. 540).

The facts in the recent case of *Jeffery v. Rolls-Royce Ltd* ([1960] 2 All E.R. 640) are basically very similar to those which obtained in the *Evans Medical Supplies* case, and Pennycuik, J., followed the decision in that case. There are, however, some differences between the two cases which were made full use of by the Crown in argument. It will be the purpose of this article to consider (i) the fresh light on the subject of 'know-how' which emerges from the recent judgment, (ii) the position regarding the appointment of a lump-sum receipt for 'know-how', and (iii) some interesting cases relating to the disposal of copyright which are not without relevance in considering the best means of turning 'know-how' to account.

Facts in the *Rolls-Royce* Case

The company manufactured and sold motor-cars and aircraft engines and for that purpose engaged in metallurgical research and the discovery and development of engineering techniques and secret processes, only a small part of which was capable of forming the subject-matter of patent rights. Before 1945, with one or two exceptions, the company did not turn its 'know-how' to account otherwise than in its own manufacturing trade, but between 1945 and 1953 it entered into agreements with governments and companies in China, France, the Argentine, the United States of America, Belgium, Australia and Sweden (in none of which countries it carried on a trade) under which it undertook to license the manufacture of specified types of aircraft engines and to supply complete drawings and manufacturing and engineering data and information necessary to enable the licensees to manufacture such engines, in each case in return for a lump-sum

payment and royalties (but no question arose with regard to the royalties). The company did not initiate proposals for these agreements, which arose from the policy of foreign governments that aircraft engines should be manufactured in their own territories. The agreements contained certain basic provisions which were common to all of them, as well as individual differences, but no distinction fell to be made between payments in one or other of the agreements.

A specimen agreement, mentioned in the case, was one dated February 13th, 1946, with the Republic of China. Under that agreement the company licensed a Chinese commission to manufacture jet engines and undertook to supply drawings and technical information in consideration of a 'capital sum' of £50,000 and royalties on the number of engines manufactured. The company was to advise the commission from time to time of improvements and modifications in the manufacture of the engines as and when the British Government permitted it to do so, and the company was also to instruct Chinese personnel in the manufacture of the engines. The commission, on its part, was not to disclose the drawings and information to others and the manufactured engines were to be used only in Chinese owned or operated aircraft.

The company was assessed to income tax, profits tax, excess profits tax and excess profits levy for the relevant years on the basis that the lump sums received constituted part of the income of its trade of the manufacture and sale of motor-cars and aircraft engines. On appeals to the Special Commissioners it contended (i) that the trade carried on by it was correctly described in the assessments under appeal as that of 'manufacturers of motor-cars and aero engines', and that the sale of 'know-how' formed no part of its trade; (ii) that the metallurgical engineering research carried on by it was at all times directed exclusively to the more efficient production of motor-cars and aero engines and not at all to the earning of profits by selling or licensing the results of that research; (iii) that the lump sums received related to the sale of capital assets; and (iv) that a multiplicity of sales of

¹ 'When is "Know-how" Taxable?' *The Accountant*, July 12th, 1958.

portions of a fixed capital asset could not of itself convert that asset into a revenue or trading asset. The Special Commissioners allowed the appeals and the Crown appealed.

The Judgment

Pennycuik, J., said that the technical knowledge possessed by the company represented 'at any rate in great part' a capital asset. Once it was accepted that a trader possessed a capital asset in the nature of 'know-how', it must be open to him to exploit it either by using it himself in the process of his own trade, or by communicating it to others; and in the latter case the taxable character of the consideration received by him must depend on the particular circumstances. It might be possible for the trader to a limited extent to retain the asset intact and to exploit it by rendering services to others in the way of imparting information or rendering assistance to them (a view which Lord Keith of Avonholm took on the facts in the *Evans Medical Supplies* case), but it was in the nature of this particular asset to lose its value on communication, and in a normal case communication of the asset was likely to represent the disposition of part of the asset itself. The communication of 'know-how' by the company to another party had the natural consequence that at least, as regards the territory of that party, the asset must lose the whole or the greater part of its value. That represented a disposition of part of the capital asset itself, from which it followed that the lump sum consideration paid in each case, being the price of a capital asset, was a capital receipt in the hands of the taxpayers.

Four further points stand out in the judgment: (i) unlike the *Evans* case, there was no evidence that at the date of the agreements the company was trading in the territories of the licensees, but the communications were no less a disposition of part of a capital asset by reason of that fact; (ii) it was irrelevant that there was a number of communications as opposed to a single communication in the *Evans* case; (iii) there was no evidence that the company carried on any trade other than that of the manufacture and sale of aircraft engines, e.g. that of a dealer in 'know-how' or the trade of teaching others how to manufacture aircraft engines, and no assessment had been made on the company on the footing that it carried on any additional trade; (iv) whereas in the *Evans* case the agreement was divided into parts and the lump sum in question was allocated exclusively to the consideration

specified in Part I of the agreement, there was no such division or allocation in the case of the present agreements, but neither party 'at any stage in the proceedings had contended that on this or any other ground the lump sum should be apportioned so as to represent in part a capital and in part a revenue receipt; and in view of the decision of the House of Lords as to apportionment in the *Evans* case, his lordship would not be entitled to make any such apportionment even if he were minded to do so. Accordingly, all four appeals were dismissed.

No Apportionment

In the *Evans* case the Court of Appeal distinguished 'formulae or secret processes truly analogous to letters patent, copyright and things of that kind' from plans and designs illustrating the way in which the company would lay out the factory in Burma and dispose the apparatus therein which only represented the 'recorded fruit of practical manufacturing or operational experience'. It took the view that the lump sum there in question was capital only in so far as it was attributable to the imparting to the Government of Burma of the secret processes, and it remitted the case to the Special Commissioners to ascertain what part, if any, of the lump-sum payment should be so attributed. The House of Lords held this view to be erroneous. Lord Denning said:

'I can see no sensible distinction between money paid for information of secret processes and money paid for the other information (in the case). . . . I very much doubt whether it was open to the Court of Appeal to remit this case as they did. . . . The case stated . . . does not attempt to divide the (lump sum) into parts. No evidence was given before the Commissioners about splitting it up. No point was taken on it either before the Commissioners or Upjohn, J. It is a new point which appeared for the first time in the Court of Appeal. . . .'

In other words, as stated by Viscount Simonds, the case was argued throughout on an 'all or nothing' basis. But it is clear from the words of Viscount Simonds that if the suggestion for splitting up had been made at the outset, evidence could have been directed to the point in the usual way. In the *Rolls-Royce* case there was no question of the division or allocation of the lump-sum payment, but counsel for the Crown pointed to certain apparent differences between the views expressed by members of the House of Lords in the earlier case as to the precise ambit of the capital asset there in question, i.e. whether it

should be regarded as confined to secret processes or as comprising also knowledge outside those processes. As to that, Pennycuik, J., said that it might be necessary to explore this point further in the case where the secret processes were relatively unimportant or where there was an apportionment of the consideration, but he did not think it was of practical importance in the case before him.

Disposal of 'Know-how'

As indicated in the earlier article, the sale of 'know-how' calls for careful handling if unnecessary tax is to be avoided. An elementary point is that whereas a capital payment may be made by instalments, a lump sum arrived at by reference to some anticipated *quantum* of user will normally be income in the hands of the recipient. In the *Rolls-Royce* case the capital sum was payable by instalments: £20,000 on the signing of the agreement, £20,000 on June 30th, 1946, and £10,000 on the complete delivery of drawings, data and information, while the royalties were based on the number of engines manufactured. A difficulty in practice, of course, may be to calculate a fair price for 'know-how' otherwise than, in part, by reference to some anticipated *quantum* of user.

In *Mitchell v. Rosay* (33 A.T.C. 299; 35 T.C. 496) the taxpayer acquired exclusive rights to exploit films in the United Kingdom and elsewhere for £1,000, the receipts from the exploitation to be divided equally between herself and the vendor, but she being entitled to reimburse herself out of the vendor's share for the £1,000 she had paid to him. Later she entered into a second agreement with a company to which she granted the rights she had acquired under the first agreement. Under the second agreement (after deduction of the £1,000) the gross receipts were to be shared as to 30 per cent by the company and as to 70 per cent by the taxpayer. Her share of the receipts was held to be taxable as 'annual payments' under Case III of Schedule D. Wynn-Parry, J., who gave judgment in the case, remarked significantly:

'The taxpayer had complete choice between exploiting her rights acquired under the first agreement in such a way that she would receive a capital sum, or exploiting them in such a way that she would receive an income profit.'

She had chosen the latter method and the receipts were taxable in her hands notwithstanding that there was no question of her having carried on a business so as to be assessable under Case I.

A different case was *Nethersole v. Withers* (27 A.T.C. 23; 28 T.C. 501). There the House of Lords held that the nature of the rights for which a sum is paid is a factor, and often the deciding factor, in considering whether the sum is of a revenue or a capital nature. What the appellant in the case was being paid for, among other things, was the right to cut her play to pieces and to combine the story with other stories – a right which, whether it should be exercised or not, amounted to a right to diminish the value of the copyright in the play. The agreement with the purchasers operated as a partial assignment of the copyright in the play, and not as a licence, and involved the surrender of a capital asset in consideration of a sum which was paid without reference to any anticipated *quantum* of user. Accordingly the payment was not taxable. In *Beare v. Carter* (23 T.C. 353), however, a lump sum paid by publishers for the grant of a licence to publish a sixth edition (of which the author retained the copyright) of a work of which five editions had previously been published, was held to be a capital payment; while in *Hobbs v. Hussey* (24 T.C. 153) and *Housden v. Marshall* ([1958] 3 All E.R. 639) the Courts distinguished the performance of services (the rewards of which are essentially of a revenue nature) from the sale of copyright.

Conclusion

While the above-mentioned cases (and there are many others) shed light on some of the points to be taken into consideration in deciding the precise method of turning copyright (and 'know-how') to account, it is clear, particularly from the observations of Pennycuik, J., in the *Rolls-Royce* case, that the dividing line between 'secret processes' and the 'other information' considered in that and the *Evans* cases, has yet to be finally drawn; unless there is no difference, from the legal standpoint, between information which is *secret* and information which is *scarce*, as was suggested by Lord Denning in the *Evans* case.

Meanwhile four things are clearly desirable in the interests of the taxpayer: (i) that there should be a single lump-sum payment for the 'secret' and the 'other information'; (ii) that the lump sum should not be divided or allocated between them; (iii) that no dividing line should be drawn between them in the vending or licensing agreement; and (iv) that the taxpayers should so conduct their affairs as to avoid any suggestion that they are carrying on an additional trade as (a) dealers in 'know-how' or (b) as teachers of 'know-how'.

The Battle of the Books on Book-keeping

by R. ROBERT, A.C.I.S.

MUCH evidence exists to prove that the practice of double-entry book-keeping in England, just as in Italy, preceded publication of the first textbooks. Hugh Oldcastle's famous work, the *Profitable Treatyce* (based on Pacioli), did not appear in print until August 1543, but ledgers kept on double-entry principles have survived from much earlier in the sixteenth century. The Drapers' Company, for example, owns such a book, recording the transactions of a London merchant, Thomas Howell, for the eight years 1519 to 1527. How did he come by his knowledge of double-entry?

First, perhaps, we should bear in mind that manuscript versions of Oldcastle's work, and possibly others, were in circulation prior to 1543. Copies of Pacioli's *Summa de Arithmetica* (published at Venice in 1494) may also have been available. Whether many of the English merchants could read Italian is, however, open to doubt. More probably it was the Italian merchants in London who introduced and helped to diffuse the gospel of the new-style book-keeping. Another suggestion is that it was learnt abroad, by the English merchants themselves, their sons or apprentices. Certainly it was quite a common thing for young men in the sixteenth century to be sent to foreign countries to acquire the rudiments of a business education.

No Surviving Copy

Practice, therefore, came before theory. Nevertheless, publication of Hugh Oldcastle's book, the first to enunciate double-entry in this country, was an important event. The old 'teacher of arithmetic and book-keeping', well known in the Parish of St Olave's, Mark Lane, in the City of London, was in every sense a pioneer. He struck the first native blows for more scientific account keeping and, incidentally, started the vogue – to which there appears to be no end – for writing books on book-keeping. Whether the *Profitable Treatyce* – published some six months after Oldcastle's death by his widow – kindled the fires of enthusiasm or passed unnoticed, is anybody's guess. Only one thing is known for certain: forty years later the book had become a rarity, and not a single copy has survived to the present day.

Indeed, Oldcastle's name might never have emerged from oblivion had not another school-

master and teacher of arithmetic – Thomas Mellis, of St Olave's, Southwark – reprinted the book in 1588 with certain additions. Several copies of this work – *A brief instruction and maner how to keep bookes of Accompts after the order of Debitor and Creditor* – are still extant: one is in the British Museum and another in the library of The Institute of Chartered Accountants in England and Wales. In a preface to the reissued work, Mellis makes it clear that he was merely its 'renewer and reviver'. However, he did make amendments and embellishments and added a set of accounts at the end of the book 'for the better understanding' of the rules given. Mellis also admits in the preface that he had kept a copy of Oldcastle's book by him for thirty years and regarded it as a 'jewel too commodious' to be for ever hidden. Other authorities may have thought equally well of Oldcastle and it is probable that his influence as a writer on book-keeping was considerable.

John Peele of Christ's Hospital

In the fifty-seven years that elapsed between 1543, when the *Profitable Treatyce* appeared, and the end of the century, the crusade for double-entry gathered strength. More books began to circulate: as, for example, an English translation of Jan Ympyn, who, if he did not actually 'invent', at least developed, the trial balance. Ympyn was a merchant of Antwerp, and based his work on an Italian manuscript dealing with book-keeping. The Flemish version appeared in 1543 and the English translation four years later. In 1553 John Peele's *The Maner and fourme how to kepe a perfect reconyng* – the first treatise on book-keeping of purely English origin – was printed.

The author was for the twenty years, 1562–1582, a clerk at one of the great English public schools, Christ's Hospital, whose boys were distinguished by blue cloaks and yellow stockings as, indeed, they still are though the cloaks have given way to coats. James Peele served this famous institution – then situated in Newgate Street, London – with diligence and honour. A fastidious craftsman, he aimed at making his ledgers not only accurate records but marvels of calligraphy. His *Maner and fourme* was intended to set out the principles of double-entry book-keeping simply and in 'a way easy to be learned' for the benefit

of merchants and anyone interested. The original book bears the imprint of Richard Grafton, the king's printer, and like the other works we have considered, is extremely rare. A copy, very defective, is to be found in the British Museum and, again, the English Institute has another. This latter, in a good state of preservation, was acquired in 1913 from the estate of Karel Peter Kheil, a Prague banker.

These early texts on the art of book-keeping were, it is believed, in good demand and the comparatively small editions were soon sold out. Moreover, there are grounds for supposing that the books were in constant use, their pages being thumbled, annotated, and becoming dog-eared until finally they disintegrated and were lost. It is probably in this way that Oldcastle's *Profitable Treatyce* vanished from the scene.

Modest Best Seller

After James Peele—who, incidentally, published a second work in 1569—came Richard Dafforne, a man of the seventeenth century. His *Merchant's Mirror*, published in London in 1636, is noteworthy because it became, by the standards of those days, a modest best seller. In many ways it is an important work, having a Dutch rather than an Italian inspiration.

Dafforne's main debt was to Simon Stevin, of Bruges, a man of the most varied talents who was employed by a trading firm in Antwerp and acquired a knowledge of book-keeping at an early age. Stevin wrote a short treatise on the Italian method of book-keeping and broke new ground by emphasizing the importance of understanding basic principles, rather than learning off a few rules by rote. Stevin also tried to streamline book-keeping work and stripped it of some unnecessary frills.

Richard Dafforne appears to have been a friend of Stevin, and the *Merchant's Mirror* includes a chapter on the 'origins of book-keeping' which is a literal translation from the Dutch author. Many of the Stevin virtues survive in Dafforne—though he still gives fifteen 'rules of aide, very requisite in trade', which students were required to learn by heart. Nevertheless, the *Merchants' Mirror* fulfilled a practical need and was the first book of its kind in the English language to run through several editions.

Moving forward to 1714, we come across Roger North's *The Gentleman Accomptant*—an essay designed 'to unfold the mystery' of accounts. Like Stevin, North was against learning book-keeping 'parrot fashion', and deplored the use of doggerel

rhymes and other aids to memory then in fashion. Certainly he managed, in *The Gentleman Accomptant*, to keep down the 'multitudes of rules and perplexing examples' while still producing a sound and readable introduction to the subject of book-keeping.

Advocate of Single-entry

Other eighteenth-century names include: Thomas King, author of *An Exact Guide to Book-keeping* (London 1717), and the famous but misguided Edward Jones, a west-country accountant, who schemed to undo all the good work that Oldcastle had begun in 1543 and other writers had manfully carried on. The story is well known and yet—like that of Canute trying to turn back the tide—has perennial interest.

Jones, in 1795, wrote *An Address to Bankers, Merchants, Tradesmen, etc.*, intended as an introduction to a new method of book-keeping which, he claimed, would make it impossible for errors of even the most trifling kind to pass undetected. In this manifesto issued at Bristol the writer delivered a reckless broadside against the 'Italian system' of account keeping. Double-entry, Edward Jones declared, was a snare and a delusion. Easily converted into 'a cloak for the vilest statements that designing ingenuity can fabricate', it actually encouraged fraud! Having obtained patent rights on the new system—and backed by recommendations including those of the Governor of the Bank of England!—Jones published his book, *The English System of Book-keeping*, which in effect advocated the return in modified form of single-entry.

Needless to say, the author's criticisms and claims did not pass unchallenged. Counterblasts came from all directions. Joshua Collier, for example, published *A Defence of Double-Entry* (London 1796); Thomas K. Gosnell wrote *An Elucidation of the Italian Method of Book-keeping* (London 1796); and there appeared *An Examination of Jones's English System* (London 1796), by James Mill. All exposed the would-be reformer's pretensions and restored double-entry—which has been described as one of the great triumphs of the human intellect—to its pedestal.

Jones lost the great battle of the books on book-keeping, but there was consolation in defeat, for his *English System* went out to four thousand subscribers at one guinea a copy! An American edition was published in 1797; the Germans, French, Dutch, Danes, Russians, and even the Italians, made translations. Financially, at least, his work could claim success.

Weekly Notes

CAESS Booklet on Contracting Out

A USEFUL booklet has been issued in connection with the Chartered Accountants Employees Superannuation Scheme (CAESS) relating to the National Insurance Act, 1959. As it rightly points out the office of the Registrar of Non-Participating Employments is likely to be under very heavy pressure during the next few months and there will be considerable advantages for those whose employees are covered by CAESS to adopt the procedure outlined if they wish to contract out of the Act. Apparently all the details have not yet been settled with the Registrar but it was obviously wise to issue the booklet now so that those concerned may have time to consider the matter. Any who are seriously considering contracting out should now communicate with the scheme secretaries so that they may be kept informed of developments.

Two sections of the booklet outline briefly the provisions of the Act and the pros and cons of contracting out—matters which have been previously dealt with in this journal. It is envisaged that an additional fee of one guinea per annum will be charged for each member contracted out but if a payment in lieu is made, on a member leaving, the fee will be made available as a credit against future contributions by the employer. However, it may be decided, in some cases, to provide a paid-up pension in CAESS instead of making a payment in lieu, though the committee reserve the right to make a decision on this point.

Once the necessary amendments have been made and agreed with the Registrar, and presumably the Inland Revenue, a form of authority must be compiled by an employer wishing to contract out authorizing the committee to act on his behalf. A notice must be issued to employees and the Registrar cannot issue a certificate of non-participation for at least one month after that, so that it is clearly necessary for all employers who are thinking of contracting out to keep in close touch with the secretaries if they are not to be defeated in their object of having a certificate operative by April 3rd, 1961.

The Charities Act, 1960

THE Charities Bill, introduced into the House of Lords early this year, received the Royal Assent on July 29th. The view expressed in a leading article in this journal when the Bill first came before the Lords, that it was unlikely to prove controversial, has turned out to be unduly optimistic. In fact, some

clauses were the subject of long debate both in the Lords and in the Commons, in particular in Standing Committee; but the Government spokesmen, who dealt with criticisms with commendable patience, had the knowledge that they were dealing with a measure which was basically extremely sound, both in its content and in its drafting.

There has probably never been a Bill which could not be improved, and in its course through Parliament the Charities Bill has, in being amended, been improved; but the Government has stood firm over the basic principles of the measure. In particular, the new provisions for a register of charities and the revised provisions for controlling dealings in charity lands have been subject to severe buffeting but have weathered the storm. The question of what charities should be exempted from the jurisdiction of the Charity Commissioners and the Minister of Education, and what charities should be excepted from certain provisions of the Act (in particular, those dealing with registration (Section 4)), was a particularly burning one, but the explanations given by the Government spokesmen must have convinced most people of the soundness of the basis of exemption and exception, though some slight apprehension may perhaps be felt at the number of statutory instruments which will be necessary to effect the promised exceptions.

The most notable amendment which the Bill received was the addition of a further clause (now Section 14 of the Act) providing that property given for specific charitable purposes shall, in spite of the absence of a general charitable intent, be applicable *cy pres* when the specific purpose cannot or can no longer be carried out, and the donor is unknown or disclaims. This affects an amendment of the law which will be widely welcomed.

Section 1 of the Act and the First Schedule, which provide for the continuance and constitution of the Charity Commissioners; Section 38, which repeals the law of mortmain, and Section 47, which empowers the Northern Irish Parliament to pass similar legislation, became immediately effective, but the rest of the Act does not come into force until January 1st next year.

Building Societies Act

THE Building Societies Act, 1960, was another in the long list of statutes to receive the Royal Assent before Parliament rose for the summer recess on July 29th. The new Act is of considerably more than passing interest to accountants, as was outlined in a note on the Bill in *The Accountant* of April 2nd last.

Again, in the issue of July 16th we referred, at pages 78 and 98, to proceedings in the House of Commons in connection with the provisions relating to the powers of the Chief Registrar to require the production of documents. Subsequently an amendment was made to clause (now Section) 8, which is of some importance to accountants. The amendment

consisted of the addition of a proviso in the following terms:

'Provided that the Chief Registrar shall not have power to require the production of documents which do not belong to the building society, and which are not deeds relating to property mortgaged to the building society, from a person who is or has been an auditor of the building society or from any one other than a person who is or has been an officer or servant of the building society.'

Immediately after the Act was passed, the Economic Secretary to the Treasury, in a written answer to a question in Parliament announced the new investment 'rules' under which, as from January 1st, 1961, building societies will be permitted to invest their surplus funds. The parliamentary statement is reproduced in 'Notes and Notices' elsewhere in this issue.

New Chancellor

OF interest to the profession in the Cabinet changes announced last week is the appointment of Mr Selwyn Lloyd, formerly Foreign Secretary, to succeed Mr Heathcoat Amory as Chancellor of the Exchequer. Mr Amory, who served as Chancellor for two and a half years, is to become a Viscount.

Mr Selwyn Lloyd, who was called to the Bar in 1930, took silk in 1947 and from 1948-51 was Recorder of Wigan. He became Minister of State in the latter year, and in 1954 was appointed Minister of Supply. He held this office for six months, becoming Minister of Defence in April 1955. He has served as Secretary of State for Foreign Affairs since December of that year.

Mr Peter Thorneycroft, who, before his resignation, preceded Mr Amory as Chancellor of the Exchequer, has returned to the Cabinet as Minister of Aviation, and Mr Enoch Powell who resigned as Financial Secretary to the Treasury at the same time has rejoined the Government as Minister of Health.

Tax Problems of Nationalized Vehicles

TWO cases, sponsored by the Road Haulage Association as test cases, were taken before the Special Commissioners last November (see *The Accountant*, December 5th, 1959, page 537) in order to establish the open-market value of vehicles compulsorily acquired by the British Transport Commission under the Transport Act, 1947, under which balancing charges were leviable by reference to Section 60 of the Income Tax Act, 1945 (now Section 328, Income Tax Act, 1952). The contention by the Inland Revenue was that the open-market value was equivalent to the compensation paid by the Commission for the vehicles so acquired.

For the ex-hauliers it was submitted that the compensation recovered from the Commission could not and did not purport to be a measure of open-market value, by reason of the fact that such compensation was computed by reference to a formula laid down in the Transport Act of 1947. The Special Commissioners upheld this view and decided in

favour of the haulage concerns, accepting evidence of values in figures lower than the relative amounts of compensation.

Similarly, test cases were taken to the Special Commissioners by the Road Haulage Association on November 17th last (*The Accountant*, November 28th, 1959, page 508), to resist a contention by the Inland Revenue that the prices paid by the purchasers of vehicles offered for sale by the British Transport Commission under the 1953 Transport Act (under which a portion of long-distance road haulage transport was denationalized) contained an element of price for the right to apply for a special 'A' licence. The effect of such apportionment would normally reduce the amount apportioned to the vehicles and thus depress the permitted capital allowances.

It was submitted on behalf of the purchasers that the right to apply for special 'A' licences was granted by statute and formed no part of the property acquired from the Commission. The Special Commissioners agreed with this submission and allowed the appeals. It was therefore held that the prices paid were for the vehicles alone, so that in computing initial allowances the purchase price was the figure on which such allowances were to be based.

While at both hearings the Revenue formally expressed dissatisfaction with a view to appealing to the High Court, they have now decided not to pursue these appeals and the Road Haulage Association hopes a satisfactory conclusion may be reached with the Revenue on all outstanding cases of this nature on the basis of the Special Commissioners' determinations.

No More Farthings

THE life of the farthing is limited to five months, for under a Royal Proclamation which the Government is advising the Queen to issue, farthings will no longer be legal tender as from January 1st, 1961.

Making the announcement to Parliament on July 29th, the Economic Secretary to the Treasury stated that it seemed clear that the farthing had now outlived its usefulness and that the convenience of the general public could best be served by withdrawing it from the coinage. The last occasion on which United Kingdom coins were demonetized was on the issue of the Royal Proclamation of November 22nd, 1890, calling in all gold coins struck before the reign of Queen Victoria.

The farthing has existed in various forms for many centuries. In early times, the tiny silver penny could be broken into four, each part being a 'fourthing' or farthing. The first copper farthing was struck in 1672 by King Charles II and the coin remained in existence for nearly two hundred years until 1860, when it was replaced by a smaller bronze piece of the present-day size. This coin continued to carry the figure of Britannia, which first appeared in 1672, and it was not until 1937 that Britannia was replaced by the wren.

It is estimated that two hundred million farthings are still in the hands of the public and banks, but the

whereabouts of many millions more are unknown – no doubt they lie in countless homes at the back of little-used drawers.

Channel Tunnel: Revised Proposals

THERE has been a good deal of criticism of the financial proposals put up in the first channel tunnel scheme at the end of March. New proposals have been submitted to the British and French Governments in a document which sets out to explain how the railways would be relieved of any financial burden connected with building the tunnel, the way in which shareholders would be called upon to take the full risk of their investment and how the two Governments would be relieved of giving certain direct assurances and guarantees.

It has been made clear to the sponsors of the scheme that the British Government is not going to view favourably any extension of the British Transport Commission's activities into a new field requiring heavy capital investment such as terminal installations for the tunnel. The sponsors are prepared to raise the money from private sources. The amount needed for terminal installations is £24 million, bringing the total required from private investors to £130 million. Instead of relying on Government guarantees to market the company's bonds it thinks that a head-lease will meet the legal requirements for issue in the countries concerned.

Some three-quarters of the finance required will come from French, American and foreign investors.

Trend of Production

AT this time of the year the trend of industrial production is not easy to discern from the official index of output. The incidence of the Easter and Whitsuntide holidays makes March, April, May and June over any two years liable to special holiday factors. And so it is this year. According to the official index of production put out by the Central Statistical Office, the May level (1954 as 100) was 125 compared with 120 in April this year (adversely affected by the Easter holidays) and with 111 in May 1959 (adversely affected by the Whitsun holiday last year). It would therefore be easy to make May look better than it was and incidentally make June (for which a first provisional figure is now available at 121 to 122) appear to have been worse than is likely to have been the case.

But when all the comparing has been done the trend which is awaited, and which is not yet apparent in any of the component indices of the official index, is how capital goods output is comparing with that of consumer goods. The hope is increasing that rising capital goods output (there are recent signs that it is buoyant from the inquiry by the Board of Trade into the state of order books in the engineering industry) is making up for the slack in consumer goods now adversely affected by hire-purchase restrictions.

Rising output and hopes of sustained economic activity are placed at present on capital goods not only because sustained prosperity and an official

deflationary policy can be run together now in no other way, but also because higher productivity is waiting for the capital goods industries to operate at full capacity. The importance of raising productivity to increase this country's competitive power abroad has once again been emphasized, this time in the latest issue of the review of the National Institute of Economic and Social Research.

How to Approach Work

SILVER spoons at birth being in relatively short supply, most of us have to earn our living on leaving school and, whether it is to a trade or a profession we turn, our approach to the first job may determine the whole pattern of our subsequent career. Realizing this, the Industrial Welfare Society issued a pamphlet three months ago entitled *Advice to a Girl on Starting Work*. It has now followed this up with a companion guide for the young male.¹

The booklet contains some excellent precepts which stress the importance of writing informative letters of application and of dressing appropriately for interviews. The virtues of punctuality and politeness, the necessity not to waste time chattering and the importance of retaining (or cultivating) a sense of humour are all emphasized, as are also the dangers of throwing up a job because it looks like developing into a routine. The final piece of advice is worth quoting because it is of perennial and universal application – the man who makes a success of his career uses his imagination, is never content with half measures, sets himself high standards and puts extra effort into all that he does.

Young Workers' Background

SOME interesting information is given about the background and attitude towards education and post-school training in volume 2 of 15 to 18, price 8s 6d net. This is the second part of the 'Report of the Central Advisory Council for Education (England)'. Particulars were obtained of almost 30,000 young people, most of them men, who had left school. There was a social survey, a national service survey and a technical courses survey.

Some of the interesting points coming out of the social survey were that a father's occupation is a very important factor both in relation to the type of school attended and the time spent there. On the other hand, the parental income is not so important. Only when the father's income is relatively high does the length of school life of the son or daughter tend to be appreciably above the average. Among some rather depressing findings about school leaving, an encouraging feature is that about one in five girls and boys said that they would have liked to stay at school at least until 16. The survey brings out the importance of home background in finding a career. Forty-five per cent of boys and 40 per cent of girls who had

¹ *Advice to a Boy on Starting Work*, by David L.I. Davies. (Industrial Welfare Society Incorporated, 48 Bryanston Square, W1. 9d net.)

attended selective schools and who came from the homes of professional and managerial workers went on to either full-time education or professional employment. The influence of employers as regards further education is shown to be significant. Of boys attending or who had attended part-time classes of further education, over eight out of ten said that they had been influenced to do so by their employer. No other influence was nearly so powerful. As regards use of leisure, the average boy from the grammar or modern school appears to spend between four and five nights a week on leisure activities outside the home

and the average girl between three and four nights.

The survey on technical courses held in 1956 and 1958 shows that one in four men initially enrolled for a National Certificate course attains his ordinary National Certificate and that one in ten reaches Higher National Certificate level. This survey brings out the handicap which a boy encounters who does not have day release. The likelihood of his achieving a Higher National Certificate seems to be about half that of the others. Weakness in mathematics appears to be the most important single cause of failure in National Certificate engineering courses.

This is My Life . . .

by An Industrious Accountant

CHAPTER 36

THE best judges are unanimous that the introduction of feminine temperament into the essentially placid routine of ideal office procedure is potentially devastating; certainly, most of my own headaches here can be traced back to this particular source. This week I fell foul of the 'Hairpin'.

The Hairpin is one of our senior lady clerks who operates a highly complex and expensive accounting machine which posts ledger summaries and cost analyses and assorted essential statistics. She also bosses two veteran comrades on similar machines. She is, in addition, a major thorn in the flesh of my accounts staff. Her mechanical battery continually fails to keep up to schedule, or breaks down, or posts the units in the hundreds column, or is otherwise involved in expensive overtime, in spite of all the suppliers' maintenance crew can do. The Hairpin brooks no criticism and must be virtually fawned upon for special urgent jobs, while she treats our juniors like untouchables. In short, her word is law.

I have tried to get my departmental accountant to reorganize her section's schedule at least twice, but he's proved extremely adverse to interference. Frankly, he's short of initiative and scared stiff of the lady's vitriolic tongue.

Nevertheless, it was a shock when she went down suddenly with appendicitis last month, and the two other girls trained on the machine were on holiday. We were at our wits' end for a replacement when a volunteer arrived from our typing pool; a pretty youngster with a serene smile. She had, it appeared, picked up the operations by trial and error now and then, and was sure she could cope. With mingled gratitude and foreboding, we gave her the job.

Well, I dropped in now and then just casually, but Serenity was unruffled. Her machine went with a steady buzz, unlike her colleagues' equipment which always stopped while the owners fussed around with

forms, and her 'Out' tray was stacked enormously. In three weeks the arrears vanished, the section output was up over 20 per cent, the special jobs were cleared without panic, and my staff were beaming. When I found our sales manager nipping into the section with a huge box of chocolates because his monthly analysis was out in record time, I knew we'd really found a treasure. Even Prinny, our personnel director, stopped to congratulate her warmly on her success.

When, however, Serenity came in to ask for the job as a permanency, I had no option but to refuse regretfully. The first vacancy, yes; but the Hairpin must be reinstated on return.

Unfortunately that lady returned without warning last Wednesday, found her replacement ensconced, and peremptorily ordered her out. Serenity referred her calmly to higher authority; the incensed Hairpin promptly collared my D.A. who, after a hopeless attempt to keep a foot in both camps, supported that lady, who became triumphantly abusive. Whereupon, the pretender shot them down devastatingly by announcing that the personnel director had told her she was permanent. The Hairpin promptly had hysterics in the cloakroom and the whole office divided suddenly into two hostile camps; the D.A. weakly dumped the problem into my lap and I remembered that the personnel director was currently unavailable, being on a fishing holiday in farthest Kerry.

It was rather a strain having to stick to first principles, especially as it involved having to tell the sales manager and at least two other executives, very firmly, that it wasn't their business at this stage.

However, Miss Serenity, summoned forthwith, suddenly and cheerfully admitted that she'd misquoted the personnel director, adding with a conspiratorial but disarming smile that she couldn't resist the impulse to do so. Moreover, she was quite willing to return to copy typing forthwith.

But this doesn't solve my problem. It's easy to reinstate the Hairpin; but what do I do about reorganizing the section schedule, and how should I deal with the unrepentant young understudy - bearing in mind that at least one of the aforementioned executives is eager to offer her promotion?

Company Law Amendment

Scottish Institute's Memorandum to Jenkins Committee

The main recommendations of the Council of The Institute of Chartered Accountants of Scotland to the Jenkins Committee may be summarized as follows (the references being to the headings and sub-headings in the memorandum):

Consideration should be given to the possibility of applying to companies incorporated under the Companies Act the principles regarding *vires* which presently apply to bodies incorporated by Royal Charter. — 1 (b).

The recommendations of the Gedge Committee on shares of no par value should, subject to minor reservations, be implemented. — 1 (d).

The present prohibition of partnerships with more than twenty members should be abolished. — 2.

Exempt private companies should continue to be exempted from filing a balance sheet and other documents with the annual return. — 3 (b).

Directors' powers and duties as regards fundamental changes in their company's activities should continue unaltered. — 5 (a).

Where, however, directors have received a proper offer for the whole or substantially the whole of their company's undertaking and assets (as distinct from a take-over bid), they should disclose the position to the shareholders, who should then decide the action to be taken. — 5 (b).

Where new shares are issued for cash they should be required to be offered *pro rata* to the existing equity shareholders. — 5 (c).

The issue of equity shares carrying no votes or carrying only restricted voting rights should, for the future, be prohibited. — 7.

The practice of registering shares in the names of nominees should not be prohibited, but a company should be empowered to require a declaration as to beneficial ownership. — 11 (a).

Interests in associated companies should be defined and additional information supplied. — 14.

Floating charges should be introduced into the law of Scotland. — 15 (c).

Fuller disclosure in relation to take-over bids should be required. — 16.

Further information should be given regarding fixed assets in those cases where they are not stated in the balance sheet by reference to a valuation within the preceding fifteen years. — 21 (a).

Pre-acquisition profits of a subsidiary should not in general be available for distribution to the members of a holding company, but they should, in certain circumstances, be so available where the acquisition has arisen through an exchange of shares. — 21 (b) and (c).

Section 161 of the Act should be amended as regards eligibility for appointment as auditor. — 22 (a).

The form of the auditor's report should be shortened. — 22 (b).

Exempt private companies should be required to appoint auditors who are professionally qualified. — 22 (c).

We reproduce below part of the memorandum covering the heads of evidence Nos. 1-20, and the reproduction will be concluded next week. A leading article on the memorandum appears elsewhere in this issue.

The heading and sub-headings in the memorandum are, in the main, those of the heads of evidence used in the Committee's questionnaire; certain additional sub-headings are indicated by square brackets. The headings and sub-headings which in the Council's view are of major importance are shown in bold type. References to 'the Act' imply the Companies Act, 1948; and references to sections and schedules are to sections and schedules of that Act. When the context so admits, the expression 'shares' includes stock.

1. INCORPORATION OF COMPANIES — MEMORANDA OF ASSOCIATION

(a) Requirements as to minimum number of members, and other conditions of incorporation.

Under Section 2 (1) (b) of the Act the memorandum of every company must state whether the registered office of the company is to be situate in England or in Scotland.

There is no power to change the registered office from one country to the other. This can cause inconvenience in practice where a company is registered in the one country but it is in the other that its business is effectively managed and carried on. On the other hand the differences between Scots law and English law would undoubtedly raise complications if a change of registered office from one country to the other were to be allowed. We recommend that, if these complications

can be overcome, the Act be amended so as to empower the Court to permit the transfer of the registered office from Scotland to England or vice versa on being satisfied (as is at present required on an application for reduction of capital) that the interests of the creditors would be adequately safeguarded.

(b) Limitation of objects to those stated in the memorandum; obsolescence of *ultra vires* rule in view of universality of modern objects clauses; effect of that rule as between a company or its directors and third parties, and as between a company and its directors. The present method of altering objects.

The basic principle is that a company incorporated under the Companies Act cannot effectively do anything beyond the powers expressly or impliedly con-

ferred upon it by its memorandum. This principle, we believe, was adopted for the protection of investors and creditors. The universality of a modern objects clause effectively goes against the spirit and intentions of the foregoing principle, and among the practical difficulties that a modern objects clause creates are:

- (i) perusal of a memorandum is unlikely to give any clear picture of a company's true field of activity;
- (ii) time and thought may have to be devoted to the relatively unproductive task of deciding whether some newly-contemplated activity on the part of the company is within its objects clause or, if not, whether and how the objects clause should be altered; and
- (iii) the interests of third parties may be prejudiced and the company may be placed in serious difficulty if the objects clause is transgressed.

It follows that in our view the present type of 'universal' objects clause gives no protection to investors under modern conditions, and far from protecting may even damage the interests of creditors.

We recognize that it may be much too simple – although the thought greatly appeals to us – to suggest a complete reversal of the present position by an enactment on the lines of empowering a company incorporated under the Act to do anything which a natural person could do provided that it is not specifically prohibited by the terms of its memorandum. It might, however, be found practicable to apply to companies the somewhat different principles regarding *vires* which presently apply to bodies incorporated by Royal Charter.

- (c) *The company as a legal entity distinct from its members – 'one-man' companies.*

We have no fault to find with the present law on this subject.

- (d) *Shares of no par value. (Bearing in mind the Government's announced intention to implement the recommendations of the Committee on Shares of No Par Value. Cmd. 9112, 1954.)*

A memorandum of evidence submitted by the Council in March 1953 to the Gedge Committee on Shares of No Par Value expressed the view that the issue of shares of no par value should be permitted and that their introduction would give rise to no fundamental difficulties: the memorandum gave reasons for these views and contained suggestions as to points which should be dealt with by legislation on the subject. The views expressed in the Council's memorandum were in fact in substantial agreement with the conclusions to which the Gedge Committee came, save that the Council expressed opposition to allowing shares of no par value to be issued for a consideration other than cash. We are now satisfied, however, in the light of the Gedge Committee's consideration of that question, that this is a right which should not be denied to shares of no par value. We accordingly welcome, subject to the following comments, the recommendations contained in paragraph 72 of the Gedge Committee's report:

- (i) We are not convinced that, as recommended in paragraph 72 (5) of the Gedge Committee's report, it should be permissible for shares of no par value to be partly paid; it seems to us that as partly paid shares are relatively rare at the present day it is unnecessary to permit the introduction of partly paid shares of no par value,

except in so far as this may be required for a temporary period during which new shares are being paid for by instalments.

- (ii) We refer under item 21 (c) below to the question of 'freezing' reserves mentioned in paragraph 72 (10) of the Gedge Committee's report.

In the various recommendations set out elsewhere in our present memorandum we have not attempted to detail the consequential amendments which would be entailed if the issue of shares of no par value were to be permitted.

2. PROHIBITION OF PARTNERSHIPS WITH MORE THAN TWENTY MEMBERS (*Section 434 of Companies Act, 1948*)

Restriction on the size of unincorporated partnership associations to twenty members originated in the Companies Act, 1862, and we understand that its original purpose was probably to repress the public mischief which might arise if trading were carried on by large and fluctuating associations so that persons dealing with them would not know with whom they were contracting. The restriction also reflects the view that a partnership association should be an association among persons not too numerous to be bound together by ties of mutual trust.

Where the existing restriction causes inconvenience the difficulty can be solved by the constitution of a number of separate firms under a common name, often with certain common partners, each firm observing the restriction to twenty partners. We feel that it is undesirable in principle to continue a restriction which can be readily avoided in this or other ways.

Since the Registration of Business Names Act, 1916, a means is provided by which those dealing with a partnership can ascertain with whom they are contracting where – as would be the position in the case of a large partnership – the firm name had to be registered under that Act. Since each individual partner is liable for all the firm's debts it can be assumed that the greater the number of partners the better the financial security to those dealing with the firm. We are of the opinion that it can be left to the partners to decide when the stage has been reached that their numbers are such that they cannot be bound together by ties of mutual trust.

We hold the view that while a restriction to twenty members may have been reasonable in 1862, there is no justification for it now, in view of developments in the last hundred years. We can find no logical reason for setting a limit of, say, fifty, and we consider that it would be to the general advantage if the present restriction were to be abolished. Doubtless if it be decided to remove the restriction under the Companies Act, consideration should also be given to abolishing the corresponding restriction under the Limited Partnerships Act, 1907.

We express no view on the position with regard to banking partnerships where the present limitation is (under Section 429) to ten partners.

3. CLASSIFICATION OF COMPANIES

- (a) *Nature and merits of distinction between public and private companies; adequacy of restrictions imposed on the latter.*

We have no fault to find with the present law on this subject.

(b) Nature and merits of distinction between exempt and non-exempt private companies (Sections 127, 129 of Companies Act, 1948.)

Section 129 prescribes the conditions under which a private company is exempted from the requirements of Section 127 as to filing a balance sheet and other documents with the annual return. Section 129 accords with the principle recommended by the Cohen Committee on Company Law Amendment that the exemption under the 1929 Act from the requirement to file accounts should continue but that the scope of that exemption should be limited. In this connection the Cohen Committee, in paragraphs 50 to 53 of its report, said, *inter alia*, that publication of the accounts of small companies would give large concerns valuable information about the finances of their smaller rivals. The Committee also referred to the fact that many small private companies are in competition with partnerships and individuals who do not have to make their accounts public. It was represented to the Cohen Committee that large numbers of private companies had been formed on the understanding that they would not be required to file accounts.

In the expectation that the present Committee on Company Law will wish to re-examine the issues involved, we have considered various possible alterations that might be made. It may be accepted that the removal or modification of the present exemption might possibly help to obviate some abuses, although in our experience abuses in this context occur very infrequently. In our view any such possible gain would be outweighed by the consideration that to interfere with the present exemption would be an undesirable infringement of a basic principle fundamental to the formation of exempt private companies.

In all the circumstances we consider that no change in this respect should be made.

On relatively minor points under this head we recommend that:

- (i) Section 129 (2) (b) be amended so that employees and ex-employees would not be counted in arriving at the maximum limit of fifty debenture-holders for an exempt private company;
- (ii) paragraph 6 of the Seventh Schedule be amended so as to refer to 'shares or debentures' and thus enable a private company to be an exempt private company even if any of its debentures are held by a body corporate; and
- (iii) paragraph 6 (1) of the Seventh Schedule be so amended as to provide that where shares in a private company are held by a nominee of another private company which is itself an exempt private company that fact shall not operate to prevent the former company from being an exempt private company.

(c) Unlimited companies and companies limited by guarantee.

We see no reason for any alteration in the present position.

4. DONATIONS BY COMPANIES FOR CHARITABLE AND POLITICAL PURPOSES

It is a common practice for companies to make contributions in support of charitable (including educational) and welfare objects and organizations. Examples are donations to religious and welfare bodies and to hospitals, clinics and convalescent homes, from any or

all of which the company's employees may benefit; the provision of scholarships and grants for the company's employees or others to assist them to follow courses of study, research or other educational activities at universities or other educational institutions; grants to universities and other educational institutions for the provision of new buildings and equipment, or for research or other educational purposes.

On the question whether the company's funds can properly be applied for such purposes we refer to what is said above under head 1 (b).

On the question whether the power to spend the company's money in such ways should be exercisable by the directors or whether the shareholders should be consulted, we take the view that the directors should have full powers to authorize the payments where they consider that such payments may result in benefiting or furthering the interests of the company or its employees or the industry of which the company forms part. We consider that, given the complexities of modern business conditions, it is impracticable for a large company to obtain on any specific question of this kind the views of more than a small fraction of its shareholders, and that even where such views are obtainable their diversity makes them ineffective for practical purposes: it must, therefore, be left to the directors to take effective decisions.

Whether or not similar considerations should be applied to contributions for political purposes is, we feel, a matter on which we, as representing a non-political body, should not express an opinion.

5. EXERCISE OF POWERS OF COMPANIES BY DIRECTORS AND DEGREE OF CONTROL RETAINED BY SHAREHOLDERS

(a) Fundamental changes in company's activities

Where directors take steps to diversify their company's activities, even so as to change those activities fundamentally, they will sometimes be praised for their spirit of enterprise in their shareholders' interests and sometimes criticized for not first consulting their shareholders and allowing the latter to decide on broad policy.

It is no doubt good practice for the directors to give advance information to the shareholders and seek a mandate from the shareholders to proceed. Frequently, however, this is not practicable, since rival concerns in the industry in which the company is at present operating or in that into which it proposes to enter may use to the company's detriment the information about its plans which its shareholders would need if they were to be enabled to reach an intelligent decision on the question at issue.

Assuming that the change comes within the scope of the company's objects (as to which we would refer again to heading 1 (b) above) we consider that the directors, whose detailed knowledge of the circumstances puts them in the best position to decide, must be allowed discretion to adopt whatever course they think best in their company's interests. Having taken their decision and implemented it, they should, as at present, be obliged to disclose to the shareholders what they have done.

(b) Disposal of undertaking and assets.

The considerations noted under heading 5 (a) above are relevant here also, at least where the disposal of

part only of the undertaking and assets is in question. In such a case we consider that the matter must be left to the discretion of the directors.

Where, however, the question is one of the disposal of the whole, or of substantially the whole, of the undertaking and assets, then we consider that the directors should disclose the position to the shareholders so soon as the directors have received a firm offer by a reliable purchaser which the directors consider a reasonable one and that the decision should then be taken by the shareholders. As a corollary, we consider that the directors should consult the shareholders as to the way in which the company should deal with the proceeds of sale.

(c) Issue of shares.

Where a company's articles do not provide that unissued shares must first be offered to existing shareholders, difficult decisions may face the directors when there is a question of issuing authorized but unissued shares. Is it, for example, right for directors to issue relatively large blocks of shares without prior reference to shareholders even though the board may be legally entitled under the articles to do so? If the new shares do not immediately become profit earning, the effect can be to reduce the existing rate when paying future dividends on the enlarged capital and also to diminish the asset value per share. Further, the issue of the shares may change the effective control of the company. The shares could be issued at a price less than the market was prepared to offer for them or the issue might deprive the shareholders of the opportunity of considering a rival bid for the control of the company.

We consider that where new shares are issued for cash they should be required to be offered *pro rata* to the existing equity shareholders except in so far as the company in general meeting otherwise decides in relation to that particular issue.

So far as concerns issues of new shares for a consideration other than cash, we are unable to suggest a formula which would both prevent the possibility of a change in control as a result of the issue and avoid limiting the directors' powers in a way which could be detrimental to the company's interests.

(d) Borrowing money and charging property.

We see no reason for any change in the present law regarding the exercise by directors of the company's borrowing powers.

We consider that where the company's borrowing powers are exercisable by the directors they should have power to charge the company's assets.

(e) Lending money otherwise than in the ordinary course of business.

We recommend that for the purposes of Section 197 (loans to officers etc.), a closer and more comprehensive definition of the expression 'officer' should be attempted than the present inclusive definition contained in Section 455. We refer further to this point under head 29 (c) below.

6. DIRECTORS' DUTIES

(a) Should their duties be stricter and more clearly defined, and if so, in what respects?

Directors' duties, both statutory and otherwise, are so many and so varied that it would probably be impracticable to list them comprehensively. We respect-

fully endorse the view of the Cohen Committee that 'the great majority of limited companies both public and private are honestly and conscientiously managed'.

Accordingly in our opinion the answer to this question is 'No, apart from the respects envisaged by the draft Rules referred to under heading 16 below'.

(b) Are directors generally aware of the legal duties arising from their fiduciary position?

In our opinion the answer to this question is 'Yes' and accordingly we consider that no further action is required.

(c) Directors' and officers' dealings in their own companies' shares.

In our view the present requirements as to disclosure go as far as is practicable.

(d) Disclosure of directors' interests.

Under Section 199 (1) it is the duty of a director 'who is in any way, whether directly or indirectly, interested in a contract or a proposed contract with the company to declare the nature of his interest at a meeting of the directors of the company'. The words quoted may be contrasted with the reference to 'any material interests of the directors' in Section 207 (1) (a) (information as to compromises with creditors and members).

It appears to us that while Section 199 may be an excellent provision in theory it is in no sense a practical one. According to normal business practice the details of many contracts which a company enters into - e.g. day-to-day purchases of goods and materials - may not come up for consideration by the board of directors although they may involve large sums of money. In order, however, to comply strictly with Section 199, directors would require to furnish and keep up to date complete lists of their holdings in other concerns from whom their company might buy or to whom it might sell.

We consider that Section 199 should be amended on the lines of requiring directors to disclose 'any material interest' in a contract or proposed contract which comes before the board.

(e) Should bodies corporate be allowed to be directors?

Where a company has a controlling interest in another company we see no objection to the controlling company being a director of its subsidiary. In other cases we do not approve of a company acting as director of another company.

7. SHARES WITH RESTRICTED OR NO VOTING RIGHTS

The Act is silent on this subject, presumably because when it was passed very few companies had issued non-voting equity capital. In recent years, however, the practice of issuing non-voting equity capital, sometimes in the form of a bonus or rights issue or in part satisfaction of a take-over transaction, has grown considerably, and in some companies only a small proportion of the equity capital carries a right to vote. It is not always sufficiently clear to the holder of non-voting equity capital that his holding does not carry votes. In this connection we consider that the mere presence of some symbol, such as a letter of the alphabet before the term 'ordinary shares', does not adequately indicate the disability attaching to non-voting capital.

A corollary to this problem is the question of the voting power of preference capital. Normally it is provided that the holders of shares with preferential rights are not entitled to vote at general meetings unless the preference dividend is in arrear or the rights attaching to that class of share are to be affected. In some cases, however, preference shares carry full voting rights, so that the holder of a preference share has the same voting power as the holder of an ordinary share, with the result that a substantial portion of the total voting power is vested in the preference shareholders irrespective of whether or not the preference dividend is in arrear. Although the position regarding the voting power attaching to the various classes of shares is set out in the company's articles, shareholders do not often refer to the articles.

While we are not aware of much evidence of abuse of non-voting equity capital, there have been cases where control of a company has been obtained by the acquisition of a relatively small proportion of the equity capital, this being achieved by offering to buy only the voting shares without making a similar offer to the holders of the non-voting shares. Similarly control may be obtained in some cases by buying voting preference shares without buying the equity capital.

We consider that in principle the holders of every part of the equity capital should have a say in the running of their company's affairs. We also consider that it should be regarded as abnormal for preference shareholders to have voting rights of a kind similar to those of equity shareholders.

We accordingly recommend as follows:

- (1) (a) For the future a prohibition should be placed on the issue of equity capital carrying no votes or carrying only restricted voting rights.
- (b) With regard to existing equity shares presently in issue and carrying no voting rights, or only restricted voting rights, the disabilities should be required to be clearly indicated by the inclusion in the title of the shares of the words 'non-voting' or 'vote restricted' as the case may be. This alteration would go some way to meet the objection to these types of shares and would avoid the unreasonableness of introducing retrospective legislation to render such shares illegal. In this connection we consider that the inclusion of the words 'non-voting' or 'vote restricted' in the description of the shares coupled with the banning of the issue of such shares in the future would tend to make non-voting shares so unpopular with the investing public that in many cases such shares might be voluntarily enfranchised.
- (2) Where preference shares carry full voting rights that fact should be required to be indicated by including the word 'voting' in the title of the shares.

8. THE PROTECTION OF MINORITIES

Adequacy of existing remedies. Winding up under the 'just and equitable' rule (Section 225 (2) of Companies Act, 1948); the remedy afforded by Section 210.

We offer no comment.

9. PROTECTION OF SPECIAL CLASSES OF SHARES

Modification of class rights (Section 72 of Com-

panies Act, 1948); getting rid of preference shares by winding up or return of capital.

Section 72 in our opinion deals satisfactorily with the protection of different classes of shareholders where variations in their rights are being proposed and the company is to continue. Where, however, a scheme is promoted which has as one of its objects – avowed or otherwise – the 'getting rid' of preference shares with their prior right to profits, we consider that even if liquidation is resorted to the preference shareholders should be entitled to receive the greater of:

- (i) the par value of the shares with any premiums authorized by the articles; or
- (ii) the fair value of the shares as at the date of winding up or return of capital, on the basis that the company is continuing.

The foregoing recommendations are not intended to apply to redeemable preference shares which are being redeemed in terms of the conditions on which they were issued.

10. BOARD OF TRADE POWERS TO APPOINT INSPECTORS

We are of opinion that generally speaking the provisions of the Act as regards inspectors appointed by the Board of Trade have worked satisfactorily in practice.

11. DISCLOSURE OF OWNERSHIP CONTROL

(a) Nominee shareholders and debenture holders (including nominee holding companies)

The practice of registering shares in the names of nominees is of great practical convenience and there are a number of good reasons for it. Examples are:

- (i) where shares are held as security;
- (ii) on the death of a beneficial owner securities in the name of, say, bank nominees can more speedily be sold to provide for estate duty;
- (iii) the need for transfers on the appointment of new trustees can be avoided by having the shares in the names of nominees.

We therefore consider that it would be wrong if the practice were prohibited.

There are, however, cases where the use of nominees can in certain circumstances be contrary to the public interest. An example of this in our view is where, without the knowledge of the directors of a company, control or near control of their company is obtained by the buying of blocks of shares over a period and putting them into the names of nominees. It seems to us that in principle directors are entitled to know for whom they work, that shareholders have a right to know who their fellow shareholders are, and that from the national point of view it may be desirable to ascertain whether the control of an important company is falling into foreign hands.

We have studied various methods of achieving general disclosure of beneficial ownership either by tracing the beneficial owner of shares through the registered holder or by requiring the beneficial owner to come forward and declare his interest. Each of these methods seems to us impracticable, either because it could be evaded or because it would impose an unreasonable burden on the companies, the nominees and the beneficial owners. Accordingly, while in favour of the principle of general disclosure, we are unable to

suggest a method which in our opinion would satisfactorily achieve it and have therefore addressed ourselves to the possibilities of obtaining *particular disclosure*.

Our recommendation in this connection is that companies should be empowered to require a registered holder of shares which carry a vote, or confer the right to appoint a director or directors, to make a declaration, in a specified form, stating in respect of any or all of the shares of which he is the registered holder whether he is the beneficial owner of the shares and, if not, the name and address of the person on whose behalf he holds the shares. Where the person making the declaration is not himself the beneficial owner, the company would then require the person named as the person on whose behalf the shares are held to make a declaration similar to that recommended above. This process would be continued until the beneficial owner was ascertained.

The information obtained as a result of the exercise of the power to require disclosure would be recorded in a register of beneficial ownership which would be open for inspection in the same manner as the register of members.

We envisage that the power to require these declarations would vest in the directors, but that, by resolution of a simple majority, the shareholders of the class concerned should be enabled to resolve that the directors exercise the power.

The sanction for enforcing disclosure might well be the withholding of dividends and of the right to vote. It might also be necessary to impose penalties similar to those applicable under Section 173 (3) (power to require information as to persons interested in shares or debentures).

Special provisions would no doubt be required to deal with such matters as bearer shares, shares held by private companies which while technically the beneficial owners were controlled by the members who were the real beneficial owners, and shares held by personal representatives or trustees.

It should be provided, in the case of companies registered in England, that information disclosed as a result of the exercise of the power should not be treated as affecting the company with notice of any trust.

We further recommend that:

- (i) all transfers of shares should in future be required to contain a declaration whether the transferee is the beneficial owner or is holding as a nominee; and
- (ii) an obligation should be imposed on any person who has signed a declaration of beneficial ownership to make a declaration to the company regarding any change in his beneficial interest in the shares.

We do not recommend similar provisions as regards debenture-holders because we take the view that the risk of control of a company being obtained through debentures registered in the names of nominees is so remote that it can be disregarded.

(b) *Control through nominee directors.*

We do not recommend any legislation in this connection.

12. SHARE TRANSFER AND REGISTRATION PROCEDURE

In our opinion the existing share transfer and registration

procedures work satisfactorily so far as the companies themselves are concerned. We are aware, however, that in relation to companies with stock exchange quotations there are difficulties arising from stock exchange procedures and that these difficulties are being investigated. At the present stage, therefore, we offer no further comment under this heading.

13. MULTIPLICITY OF DIRECTORSHIPS HELD BY ONE INDIVIDUAL

We do not consider that it is desirable or practicable to place any limitation on the number of directorships that can be held by a single individual.

14. PRACTICE OF CARRYING ON BUSINESS THROUGH ASSOCIATED AND SUBSIDIARY COMPANIES

We consider that in general the present system of carrying on business through subsidiary and associated companies is satisfactory.

So far as concerns the accounting of associated companies we offer the following comments.

Under Section 150, where a company has subsidiaries, group accounts dealing with the state of affairs and profit or loss of the company and its subsidiaries must, with certain exceptions, be produced. Where, however, two or more companies jointly operate an associated company they can arrange that none of them controls the composition of the board of directors or holds more than half in nominal value of the equity share capital of the associated company. Accordingly, by virtue of Section 154, the associated company is not a subsidiary company and its state of affairs and profit and loss need not figure in group accounts produced by any of the companies which together own it.

We consider that where a company holds more than, say, 25 per cent of the nominal amount of the issued equity share capital of another company and the amount involved, while insufficient to create the relationship of holding company and subsidiary, is material in relation to the former company, the former company should be required to comply with the following conditions:

- (i) the holding should be described separately in the balance sheet under the heading 'Investment in Associated Company';
- (ii) dividends received (so far as credited to the profit and loss account) should be separately described in the profit and loss account;
- (iii) if the associated company's shares are quoted, the market value of the holding should be shown in the balance sheet;
- (iv) if the associated company's shares are not quoted information should be supplied as to the amount of the associated company's paid up capital, capital reserves and revenue reserves attributable to the former company's holding.

Where a company holds two or more investments in associated companies a statement covering the aggregate amounts should suffice.

15. LOAN CAPITAL

(a) *Debenture and debenture stock.*

We offer no comment.

(b) *Trust deeds - duties of trustees and receivers.*

See heading 15 (c) below.

(c) Registration of charges.

A matter of importance to Scotland is whether floating charges should be introduced into the law of Scotland. We submitted a memorandum of evidence on this topic to the Law Reform Committee for Scotland and note that the suggestions which we made have found favour with that Committee. The Eighth Report of the Law Reform Committee for Scotland (Cmnd. 1017), published in June 1960, expresses the view that the changes in the law required to introduce floating charges into the law of Scotland could be effected by amendment of the Act, and Appendix II to the report contains detailed suggestions as regards such amendments. We respectfully agree with all the recommendations made by the Law Reform Committee for Scotland and urge that:

- (i) floating charges should be introduced into the law of Scotland;
- (ii) there should be made applicable to Scotland provisions on the lines of Section 95 (registration of charges created by companies registered in England), and of Section 322 (effect of floating charge);
- (iii) receiverships should not be introduced into the law of Scotland and the enforcement of floating charges should be effected by other means; and
- (iv) floating charges, if introduced into the law of Scotland, should extend to heritage.

16. TAKE-OVER BIDS

- (a) Procedure.
- (b) Securing disclosure of information on which shareholders can form an opinion.
- (c) Functions of directors.
- (d) Disclosure of identity of bidder.
- (e) The financing of such transactions.

The Notes on Amalgamation of British Businesses prepared at the suggestion of the Governor of the Bank of England and issued in October 1959 set forth certain principles and a code of procedure which we would wish to support in every possible way. We recognize, however, that it would not be practicable, even if it were desirable, to give legislative effect to the whole of this code. So far as the subject is capable of being regulated by legislation, we consider that the draft of the Licensed Dealers (Conduct of Business) Rules, 1960, issued by the Board of Trade on May 9th, 1960, is an excellent approach, subject to the following observations:

- (i) We wish to emphasize that it is normally material to the offeree to know the offeror's intentions as to the future conduct of the company and the effect of the take-over on employees. The draft Rules for Licensed Dealers do not require any such statement to be made and we appreciate that in some instances such a statement would be inappropriate or irrelevant. We consider, however, that the Rules should require that the offeror make a statement of his intentions in these respects or, if he is not prepared to do so, state that he is not so prepared.
- (ii) Practising chartered accountants commonly act as financial advisers to companies and often take a prominent part in the negotiations which result in a merger or take-over bid. It is part of

their professional functions to value shares, and the accountant fills the role of 'man of affairs' and 'general adviser' to many people.

For these reasons we recommend that:

- (a) practising chartered accountants be recognized under Section 15 of the Prevention of Fraud (Investments) Act, 1958, as dealers in securities; and
- (b) paragraph 1 (b) of the draft of the Licensed Dealers (Conduct of Business) Rules, 1960 (or any analogous Rules), be altered to include the following words: 'If you are in any doubt about this offer you should consult your stockbroker, bank manager, solicitor or accountant.'

We also recommend that there be made applicable to take-over offers a provision on the lines of Section 40 of the Act (expert's consent to issue of prospectus containing statement by him): it would seem particularly desirable in take-over offers that such a provision should apply to any statement purporting to be made by an accountant or auditor, or to figures stated to be audited figures, to ensure that they are appropriately used in the context of the offer.

- (f) *Disclosure of directors' interests - compensation for loss of office (Sections 191-194 of Companies Act, 1948).*
- (g) *Application of provisions regarding compulsory acquisition of shares of dissenting minority (Section 209 of Companies Act, 1948).*

We consider that Sections 191-194 deal adequately with the disclosure of directors' interests and compensation for loss of office, and likewise that Section 209 deals adequately and fairly with the compulsory acquisition of the shares of a dissenting minority.

17. PROSPECTUSES - STATEMENTS IN LIEU OF PROSPECTUSES - OFFERS FOR SALE - ISSUES OF SHARES TO EXISTING SHAREHOLDERS

- (a) *Adequacy of protection afforded to investors by existing law.*
- (b) *Usefulness and necessity of the existing provisions.*
- (c) *Certificates of exemption (Section 39 of Companies Act, 1948).*

We are of opinion that the present requirements in relation to prospectuses, statements in lieu of prospectuses and offers for sale operate satisfactorily. We have dealt under heading 5 (c) above with the issue of shares to existing shareholders.

18. CONTROL OVER BUSINESS OF DEALING IN SECURITIES

We offer no comment, apart from what is said under heading 16 (a) to (e) above.

19. UNIT TRUSTS AND 'OPEN-END MUTUAL FUNDS'

We offer no comment.

20. REDUCTION OF CAPITAL AND PURCHASE BY A COMPANY OF ITS OWN SHARES

We see no necessity to alter the present position.

(To be concluded.)

Finance and Commerce

Renold Change

A CHANGE in the form and shape of published accounts is not to be undertaken lightly. It is not necessarily a once-and-for-all decision but one cannot go chopping and changing, this year and next year. There must be some stability of form over a period.

In considering what improvement might be made in accounts for which they are responsible, some readers may have wondered whether it might not be better to abandon the old form completely and to adopt at one move the 'stripped' balance sheet with all detail relegated to the notes.

Some idea of what such a change can mean may be gathered from this week's reprint of the accounts to April 3rd, 1960, of Renold Chains Ltd - the company making transmission chains from those weighing a few ounces a foot to marine diesel-engine chains weighing over half a hundredweight to the foot.

The reprint covers the actual accounts (three pages in the original) as well as the notes (four pages of the published accounts), though space limitation here renders some compression unavoidable.

Replacement Retentions

These accounts of Renold Chains mark the completion of the examination of the policy of making transfers to the 're-equipment reserve' to which the chairman, Sir Charles Renold, referred last year. As a result of this examination, the board is satisfied that the policy pursued over the past ten years has resulted in the retention of sufficient profits in the business to provide, in due course, for the replacement of existing equipment.

The view remains that while it is desirable to retain profits in the business for this purpose, the directors feel that they should not be tied in advance to the policy of providing for replacement of equipment out of retained profits. Nevertheless, Sir Charles says that they 'should not be tied in advance by a rigid policy of making annual transfers to a specific reserve or to any particular formula for the ascertainment of the amount of such transfer'.

In making the examination, the board considered the balance sheet value of all the properties and equipment (and not merely the equipment which has been the subject-matter of the re-equipment reserve

transfer) and noted the wide discrepancy between the written-down value of many of the assets and their estimated present-day value. At the same time, it was felt that 1958 and 1959 had been years in which inflation had slowed down to a point which created (whatever the future might have in store) a new post-war milestone in economic measurement.

Revaluation

Accordingly, it was decided to revalue the land, buildings, plant and equipment - with minor exceptions - as at March 30th, 1959; the basis, as regards land and buildings, being a valuation by the directors on the advice of professional valuers, and as regards equipment, the valuation being derived from the estimated present-day replacement cost.

So far as the equipment is concerned, the revaluation will have the result that the depreciation charged in future years (assuming for the moment that no further inflation takes place) will, with the total of cumulative depreciation and transfers to re-equipment reserve in previous years, provide for replacement when the equipment becomes worn out or obsolete.

That further inflation may take place is admitted, but if it does, Sir Charles says, the board will then be ready to take such action as may be appropriate in the circumstances at the time, including retention of profits over and above the annual depreciation charge.

Now that this decision has been made, the board have decided to make up the re-equipment reserve as at March 30th, 1959, to the level it would have reached if the policy of making transfers had been followed in 1958 and 1959, by transferring £468,000 from general reserves to the re-equipment reserve. At the same time, the re-equipment and the equipment reserves have been merged.

Capitalization

Revaluation of the assets produced a surplus of £1,723,430 which was first put into a new revaluation reserve and then used, in accordance with a resolution of an extraordinary meeting of March 29th last, with £936,932 from share premium account in a capitalization of £2,660,362 and issue of one ordinary share for every £2 of stock held.

In his statement with the accounts, Sir Charles refers to the group charge for depreciation of £683,462 compared with £472,106 in the previous year. Of the increase, he explains, £106,600 arises from the revaluation of properties and equipment in consequence of which 'depreciation charges represent more adequately, in terms of present money value, the use made of these assets during the past year'.

'It will be borne in mind', he adds, 'that the Inland Revenue do not recognize for taxation purposes the increased depreciation arising from the revaluation: consequently the increased depreciation charge must be found out of taxed profits.'

BALANCE SHEET OF RENOLD CHAINS LIMITED

AS AT THE 3rd APRIL 1960

[illegible]

NOTES ON THE ACCOUNTS

I. FINANCIAL YEAR OF SUBSIDIARIES

The accounts of Perry Engineering Limited are made up to the 3rd April 1960 as are those of Renold Chains Limited but those of its subsidiaries operating overseas are made up for a period of nine months to the 31st December 1959. Last year's Group Accounts included the results of the Perry Companies for the trading period of three months since acquisition to the 29th March 1959. The accounts of all subsidiaries operating overseas have been made up to the 31st December in order to avoid delay in the preparation of Group Accounts. The net difference on inter-company accounts from this cause mainly due to shipments between the accounting dates amounts to £164,821—£45,850 and is included in Debtors.

2. EXCHANGE RATES

Assets, Liabilities and Profits of overseas subsidiaries included in the group accounts have been expressed in Sterling as follows:—

Fixed Assets, and Depreciation thereon at the rates ruling on the date of acquisition or revaluation. Other Assets, Liabilities and Profit and Loss items at the rates ruling on the date of their Balance Sheets.

Exchange differences arising in this way on the capital and capital reserves of subsidiaries are shown in note 12; those arising on the revenue reserves have been dealt with through the Profit and Loss Account.

3. MINORITY INTERESTS

Minority Shareholders' Interests in Subsidiaries are stated at the amount of their interests in going concerns and do not take account of additional rights of participation which they may have on winding up.

PROFIT AND LOSS ACCOUNT

4. PROFIT ON TRADING OF THE GROUP for the year has been arrived at after charging and crediting the following:—

1958/9		1959/60
£		£
472,106	Depreciation and Amortisation of Properties (excluding Land) and Equipment (The charge for 1959-60 includes £106,600 arising from the revaluation of certain assets at the 30th March 1959)	683,642
	Emoluments of Directors and Past Directors of Renold Chains Limited	
5,798	Fees	6,173
61,646	Other Emoluments for Executive and Technical Services including Pension Provisions	70,099
3,657	Pensions in respect of Executive Services	3,726
71,101		79,998
12,464	Interest on Investments	28,500

5. TAXATION

NOTES ON THE ACCOUNTS

The amount set aside for Taxation on the group profit of the year is made up as follows:—

1958/9																1959/60
£																£
87,061	Profits Tax	..	..	..	..	..	..	..	..	..	..	..	..	..	..	140,040
272,151	Income Tax	..	..	..	..	..	..	..	..	..	..	..	..	..	..	624,420
130,000	Equalisation of Taxation	..	..	..	..	..	..	..	..	..	..	..	..	..	..	40,000
489,212																804,460
96,619	Overseas Taxes, net after reliefs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	82,998
585,831																887,458

The benefit from Investment Allowances amounting to £58,275 has been deducted in arriving at the charges for Profits Tax and Income Tax.

6. PROPERTIES AND EQUIPMENT

BALANCE SHEETS

Renold Chains Limited

Group

Cost or Valuation £	Depreciation £	£		Cost or Valuation £	Depreciation £	£
1,250,519	287,401	963,118	Land and Buildings			
475,779	29,423	446,356	Freehold	2,296,177	509,269	1,786,908
3,678,211	1,113,204	2,565,007	Leasehold	529,265	50,556	478,709
371,936	160,253	211,683	Plant and Machinery	5,579,391	2,201,299	3,378,092
1,751,545	565,758	1,185,787	Durable Tools	424,680	178,528	246,152
			Furniture and Equipment	2,191,534	785,570	1,405,964
7,527,990	2,156,039	5,371,951	Total at the 29th March 1959	11,021,047	3,725,222	7,295,825
6,268,662	1,961,626	4,307,036	deduct: Assets revalued	6,268,662	1,961,626	4,307,036
1,259,328	194,413	1,064,915	Assets not revalued	4,752,385	1,763,596	2,988,789
6,030,466		6,030,466	add: Assets revalued	6,030,466		6,030,466
7,289,794	194,413	7,095,381	Total after Revaluation at the 30th March 1959	10,782,851	1,763,596	9,019,255
653,248	19,799	673,047	Acquisitions less disposals during the year	830,375	51,084	881,459
7,943,042	174,614	7,768,428				
	458,213	458,213	Depreciation and Amortisation for the year	11,613,226	1,712,512	9,900,714
7,943,042	632,827	7,310,215	Total at the 3rd April 1960	11,613,226	2,396,154	9,217,072
			Comprising:—			
1,844,314	146,378	1,697,936	Land and Buildings			
501,606	35,693	465,913	Freehold	2,906,670	392,451	2,514,219
3,637,157	275,791	3,361,376	Leasehold	563,397	62,548	500,849
296,467	49,567	246,900	Plant and Machinery	5,654,000	1,497,994	4,156,006
1,663,498	125,408	1,538,090	Durable Tools	357,197	73,652	283,545
			Furniture and Equipment	2,131,962	369,509	1,762,453
7,943,042	632,827	7,310,215		11,613,226	2,396,154	9,217,072

Properties and Equipment of each company in the group are included at cost to or revaluation by that company and the depreciation provisions shown above include some £788,500—£808,000 which was provided by subsidiaries prior to acquisition by Renold Chains Limited.

The surplus arising on revaluation by Renold Chains Limited, made up as below, has been capitalised and applied to the issue of Shares (see note 11).

Net Book value at the 29th March 1959 of assets revalued	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4,307,036
Revaluation	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	6,030,466
Surplus arising on revaluation	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1,723,430

Contracts for Capital Expenditure outstanding at the accounting dates amounted to the following:—

£384,000	Group	..	..	..	..	..	..	..	..	..	..	..	..	..	..	£232,000
£319,000	Renold Chains Limited	..	..	..	..	..	..	..	..	..	..	..	..	..	..	£153,000

7. INTERESTS IN SUBSIDIARIES

1959																1960
£																£
1,622,798	Shares at cost less amounts written off	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1,775,999
557,089	Loans, mainly for capital purposes, and other amounts owing by Subsidiaries, including dividends receivable, after deducting unrealised profit on inter-company sales £118,055—£106,731	..	..	..	..	..	..	..	..	..	..	..	..	..	..	588,925
2,179,887																2,364,924

8. INVESTMENTS

Renold Chains Limited	Group															
1959	1960															
£	£															
400,000	320,600	Tax Reserve Certificates	..	..	..	..	..	..	..	..	..	..	..	..	320,600	400,000
650,000	—	Short Term Loans	..	..	..	..	..	..	..	..	..	..	..	..	—	650,000
—	—	Quoted Securities at market value	..	..	..	..	..	..	..	..	..	..	..	..	—	32,957
1,050,000	320,600														320,600	1,082,957

9. BANK OVERDRAFTS

Bank overdrafts amounting to £77,058—£737,357 include in respect of overseas subsidiaries £20,119—£149,130 secured and £18,400—£52,270 guaranteed by Renold Chains Limited.

NOTES ON THE ACCOUNTS

10. AMOUNTS SET ASIDE FOR FUTURE U.K. TAXATION

Renold Chains Limited										Group	
1959	1960									1960	1959
£	£									£	£
227,115	519,193	Income Tax 1960/1, payable on the 1st January 1961	..	..	..	..	..	..	..	587,843	255,131
636,000	678,500	Equalisation of Taxation	..	..	..	..	..	..	..	684,500	644,500
<u>863,115</u>	<u>1,197,693</u>									<u>1,272,343</u>	<u>899,631</u>

Equalisation of Taxation is the sum of the amounts set aside in this and previous years representing tax at the rates effective from time to time on the excess of Inland Revenue Initial and Annual Allowances on Properties and Equipment over the amount charged in the Accounts on those same assets for depreciation, but excluding the additional charge arising as a result of the revaluation of certain of those assets. The excess of valuation over net book amount of assets revalued at the 30th March 1959 amounts to £1,723,430 against which depreciation will have to be provided without relief from tax; of this amount £106,600 has been provided this year.

11. SHARE CAPITAL OF RENOLD CHAINS LIMITED

Authorised	Issued									1960	
1959										1960	1959
£	£									£	£
571,583	571,583	6% Cumulative Preference Stock (£1 Units)	..	..	..	..	..	..	..	580,482	580,482
5,315,170	5,315,170	Ordinary Stock (£1 Units)	..	..	..	..	..	..	..	7,981,086	7,981,086
2,113,247	—	Unclassified Shares of £1 each	..	..	..	..	..	..	..	—	1,438,432
<u>8,000,000</u>	<u>5,886,753</u>									<u>8,561,568</u>	<u>10,000,000</u>

In June 1959, 5,554 Ordinary Shares and 8,899 Preference Shares were issued in exchange for the balance of shares in Perry and Company (Holdings) Limited—now Perry Engineering Limited.

On the 29th March 1960 the Authorised Capital was increased to £10,000,000 by the creation of 2,000,000 additional unclassified shares. On the same day the following reserves were capitalised and applied to the issue of 2,660,362 Ordinary Shares of £1 each, after which the Shares were converted into stock:—

Surplus arising on revaluation of certain assets (see note 6)	..	..	..	..	..	..	..	..	..	1,723,430	
Share Premium Account (see note 12)	..	..	..	..	..	..	..	..	..	936,932	
										<u>2,660,362</u>	

12. CAPITAL RESERVES

Renold Chains Limited										Group	
1959	1960									1960	1959
£	£									£	£
1,591,368	648,643	Share Premium Account	..	..	..	..	..	..	..	648,643	1,591,368
1,910,242	2,378,242	Equipment Reserves	..	..	..	..	..	..	..	2,716,151	2,248,151
—	—	Consolidation Reserve	..	..	..	..	..	..	..	349,155	347,992
—	—	Statutory and Other Special Reserves	..	..	..	..	..	..	..	254,975	274,962
<u>3,501,610</u>	<u>3,026,885</u>									<u>3,968,924</u>	<u>4,462,473</u>

DETAILS OF MOVEMENTS

SHARE PREMIUM ACCOUNT has increased by £942,725 made up as follows:—

Capitalised by issue of Ordinary Shares	..	..	..	..	..	..	..	..	..	936,932	
Expenses of issue	..	..	..	..	..	..	..	..	..	10,624	
										<u>947,556</u>	
Increase due to the issue of Renold Chains Limited shares in exchange for the balance of shares in Perry and Company (Holdings) Limited	..	..	..	..	..	..	..	..	..	4,831	
											<u>942,725</u>

EQUIPMENT AND RE-EQUIPMENT RESERVES have been amalgamated and have been increased by a transfer from General Reserves

		<u>468,000</u>
--	----	----	----	----	----	----	----	----	----	--	----------------

CONSOLIDATION RESERVE has increased during the year due to the purchase during the year of further shares in the Canadian and French Subsidiaries

		<u>1,163</u>
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STATUTORY AND OTHER SPECIAL RESERVES have decreased as follows:—

Exchange differences applicable to capital and capital reserves	20,829	
Transfer from Unappropriated Profits by overseas subsidiaries	..	..	..	..	..	..	..	..	..	842	
											<u>19,987</u>

13. REVENUE RESERVES

Renold Chains Limited	Subsidiaries	Group	
General Reserves	Unappropriated Profits	Total	
£	£	£	£
Balance at commencement of year	763,000	153,574	688,095
Retained earnings of the year	300,000	11,506	128,141
	<u>1,063,000</u>	<u>142,068</u>	<u>816,236</u>
Less			
Transfer to Capital Reserve of amount earmarked for Re-equipment	468,000	—	—
Transfer to Statutory Reserves by overseas subsidiaries	—	—	842
	<u>595,000</u>	<u>142,068</u>	<u>815,394</u>
			<u>1,552,462</u>

Distributions out of Unappropriated Profits of subsidiaries operating overseas would be subject to additional overseas taxation and to United Kingdom taxation less appropriate Double Taxation Reliefs.

14. BILLS UNDER DISCOUNT

Contingent Liabilities for Bills under Discount or for Collection £128,126—£11,205.

CITY NOTES

ATTEMPTING to judge economic developments in the second half of 1960 is one of the more difficult City operations of the moment. The outlook turns largely on whether the import rise of the first half of the year can be halted. Statistics so far available suggest that the level of industrial investment in stocks has been heavier than anticipated and may therefore tend to ease.

If that proves a correct view, then only a very marginal rise in exports could bring a reasonably marked improvement in the trade figures for the rest of the year. Internally, it would seem that the banks, during the next few months, will hardly be able to maintain their lending levels at the rate that brought a £99 million increase in advances last month.

In some quarters it is being suggested, however, that some easing of credit pressure may be possible in October or November and certainly the stock-market, usually a true enough barometer of economic conditions, hardly suggests any great degree of investment concern about the immediate future.

RATES AND PRICES

Closing prices, Wednesday, August 3rd, 1960

Tax Reserve Certificates: interest rate (29.6.60) $3\frac{1}{2}\%$

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	$4\frac{1}{2}\%$
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	$5\frac{1}{2}\%$	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

May 27	£4 11s 1'53d%	July 1	£5 13s 6'14d%
June 3	£4 11s 1'39d%	July 8	£5 13s 3'06d%
June 10	£4 12s 1'79d%	July 15	£5 10s 2'49d%
June 17	£4 13s 7'34d%	July 22	£5 9s 9'27d%
June 24	£5 13s 7'40d%	July 29	£5 10s 10'96d%

Money Rates

Day to day	$3\frac{1}{2}$ – $5\frac{1}{2}\%$	Bank Bills	
7 days	5– $5\frac{1}{2}\%$	2 months	$5\frac{1}{2}$ – $5\frac{3}{4}\%$
Fine Trade Bills		3 months	$5\frac{1}{2}$ – $5\frac{3}{4}\%$
3 months	$6\frac{1}{2}$ –7%	4 months	$5\frac{1}{2}$ – $5\frac{3}{4}\%$
4 months	$6\frac{1}{2}$ –7%	6 months	$5\frac{1}{2}$ – $5\frac{3}{4}\%$
6 months	$6\frac{1}{2}$ – $7\frac{1}{4}\%$		

Foreign Exchanges

New York	2'80 $\frac{1}{2}$ – $\frac{1}{4}$	Frankfurt	11'71– $\frac{1}{4}$
Montreal	2'73 $\frac{1}{2}$ – $\frac{1}{8}$	Milan	1742 $\frac{1}{2}$ – $\frac{3}{8}$
Amsterdam	10'58 $\frac{1}{2}$ –59 $\frac{1}{2}$	Oslo	20'02 $\frac{1}{2}$ – $\frac{1}{4}$
Brussels	141'12 $\frac{1}{2}$ – $\frac{1}{4}$	Paris	13'76– $\frac{1}{4}$
Copenhagen	19'33 $\frac{1}{2}$ –34 $\frac{1}{2}$	Zürich	12'09– $\frac{1}{4}$

Gilt-edged

Consols $2\frac{1}{2}\%$	44 $\frac{1}{2}$	Funding 4% 60–90	87 $\frac{7}{8}$
Consols 4%	66 $\frac{1}{2}$ xd	Savings $2\frac{1}{2}\%$ 64–67	82 $\frac{1}{2}$
War Loan $3\frac{1}{2}\%$	60 $\frac{1}{2}$	Savings 3% 55–65	87 $\frac{1}{2}$ xd
Conversion $3\frac{1}{2}\%$	59 $\frac{1}{2}$	Savings 3% 60–70	78xd
Conversion $3\frac{1}{2}\%$ 1969	83 $\frac{1}{2}$ xd	Savings 3% 65–75	70 $\frac{1}{2}$ xd
Exchequer $5\frac{1}{2}\%$ 1966	99 $\frac{1}{2}$	Treasury $2\frac{1}{2}\%$	43 $\frac{1}{2}$
Funding 3% 66–68	81 $\frac{1}{2}$	Treasury $3\frac{1}{2}\%$ 77–80	71 $\frac{1}{2}$
Funding 3% 59–69	81 $\frac{1}{2}$	Treasury $3\frac{1}{2}\%$ 79–81	70 $\frac{1}{2}$ xd
Funding $3\frac{1}{2}\%$ 99–04	64	Victory 4%	91 $\frac{1}{2}$ xd

Current Law

Variation of Trusts Refused

THE testator in *Re Steed's Will Trusts, Sandford v. Stevenson and Others* ([1960] 1 All E.R. 487) devised his farm to his trustees upon trust for sale upon protective trusts for the benefit of the plaintiff for life and thereafter for such persons as she might by deed or will appoint, with trusts in default of appointment. He provided that the plaintiff should have the capital value of the farm if she needed it, and that the trustees might apply capital moneys arising on its sale to or for her benefit, provided that they should consider the necessity for retaining sufficient capital to prevent her from ever being without adequate means. He also gave his trustees a sum of £4,000 upon the same trusts and empowered them to buy with it a residence for the plaintiff.

The plaintiff exercised her powers of appointment by deed irrevocably in her own favour. She applied to the Court under Section 1 of the Variation of Trusts Act, 1958, for approval of an 'arrangement' which she proposed whereby the trustees would hold the farm and the property which had been purchased with the £4,000 on trust for her absolutely.

The trustees were not party to the arrangement and did not approve it, and the Court of Appeal, affirming the decision of Harman, J. (as he then was) ([1959] 1 All E.R. 609), refused to interfere with their discretion. In so doing their lordships accepted the argument of counsel for the defendant trustees that the Court should not interfere in the absence of *mala fides* or some other special circumstance which would show at least grave misdirection of themselves by the trustees. Lord Evershed, M.R., delivering the leading judgment, said that there was no reason why, when the trustees had done their utmost to discharge the duty placed on them by the testator, the Court should out of sympathy for the plaintiff disregard the wishes of the testator and overrule the trustees. Dealing with the effect of Section 1 of the Variation of Trusts Act, his lordship said that an 'arrangement' within that section did not have to be *inter partes*, nor in the present case did the Court have to approve the arrangement proposed on behalf either of the plaintiff or of the trustees. The duty of the Court was to consider whether or not it should approve it on behalf of a person or persons – e.g. a future husband of the plaintiff, who was a spinster – possibly having an interest under the discretionary trusts. In the circumstances approval should not be given.

Unauthorized Lease by Mortgagors

AMORTGAGE granted in 1924 contained an express agreement and declaration that no lease made by the mortgagors should have effect by virtue of Section 18 of the Conveyancing and Law of Pro-

erty Act, 1881 (now Section 99 of the Law of Property Act, 1925), without the consent in writing of the mortgagee. One of the mortgagors died in 1936, and in 1940 the survivor granted a tenancy of the mortgaged premises. The surviving mortgagor died in 1943, and the mortgagee died in 1957. No mortgage interest was paid after October 5th, 1950. In *Taylor v. Ellis and Another* ([1960] 1 All E.R. 549) the mortgagee's executrix claimed possession against the executor of the survivor of the mortgagors and the tenant. The former did not defend the proceedings, but the tenant resisted the plaintiff's claim. The question at issue was whether or not the mortgagee's consent in writing to the tenancy had ever been given, and there was no evidence that it had. It was not in dispute that the mortgagee knew of the existence of the tenancy.

Cross, J., held that the defendants had a positive burden of showing that consent in writing had been given, and would not accept an argument to the contrary, that a negative burden of showing that it had not been given rested on the plaintiff. His lordship referred to the principle that the Courts lean against imposing on any party to litigation the burden of proving a negative. The learned judge further held that the fact that the tenant of the mortgagors, who could be treated by the mortgagee as a trespasser, was allowed to remain in possession for a long period, could not of itself preclude the mortgagee from treating him as a trespasser if and when he desired to do so. Nor, on the facts, did it affect the matter that no mortgage interest had been paid since 1950; though if a period of twelve years had elapsed without payment of interest the mortgagee's rights would, of course, have been altogether lost. Accordingly, the plaintiff's claim to possession succeeded.

Burden of Proof of Negligence

BROWN v. ROLLS-ROYCE LTD ([1960] 1 All E.R. 577), in which the House of Lords affirmed the decision of the Court of Session in Scotland (1958 S.C. 600), is an important authority on the burden of proof which rests on an employee who claims that his employer has been negligent. The appellant employee contracted dermatitis through being constantly in contact with oil in the course of his work. Barrier cream was commonly supplied to men doing such work, but it was not supplied by the respondent company. The company's medical officer had been consulted and did not recommend barrier cream as a precaution which the company ought to take, and it was in evidence that there were strong differences of opinion in the medical profession as to its value in regard to dermatitis. The contention of the appellant was that by reason of certain findings of fact, including the fact that his employer did not supply barrier cream while it was commonly supplied by other employers, he had discharged the primary burden of proof of his employer's negligence which rested upon him, so that the burden of showing that there had been no negligence now rested on the em-

ployer. Other facts which were proved, including the difference of medical opinion, the advice of the company's doctor who, as was found, had exercised proper care and skill in giving that advice, and the absence of evidence of the effectiveness of barrier cream, negatived negligence on the company's part, and the appellant's claim failed.

The importance of the case lies principally in the observations of their lordships. Thus Lord Cohen said that he could not think it right to take some of the findings of fact apart from the others in the way the appellant had done and thus create an artificial division in the burden of proof, while Lord Denning pointed to the importance of the distinction between a *legal* burden, properly so called, which is imposed by the law itself—that is, the burden on the appellant to prove his case—and a *provisional* burden, which is raised by the state of the evidence as it for the time being stands, and which may shift from one party to the other as the case proceeds or may remain suspended between them, but has no compelling force; at the end of the day the Court has to ask itself, not whether the provisional burden is discharged, but whether the legal burden has been.

Pension Not Deducted in Assessing Damages

THE plaintiff in *Judd v. Board of Governors of the Hammersmith, West London and St Mark's Hospitals and Another* ([1960] 1 All E.R. 607) was injured in an accident for which the defendants were liable. Because of his injuries the plaintiff had to retire from work and thereupon, by virtue of a contract between him and his employer under which both contributed to a superannuation fund, he became entitled to a superannuation allowance comprising an annual pension and a lump sum. The defendants contended that this pension should be taken into account in assessing damages.

Finnemore, J., applying *Payne v. Railway Executive* ([1952] 1 K.B. 26; [1951] 2 All E.R. 910), held that the *causa causans* of the pension was the service of the plaintiff with his employer and, incidentally, his payment of superannuation contributions: the defendants' tort was not the *causa causans* but the *causa sine qua non*. Accordingly, the pension should not be taken into account in assessing damages.

Option to Extend Lease

BY a lease made in 1947 the plaintiff in *Baker v. Merkel (Anson, Third Party; White, Fourth Party)* ([1960] 1 All E.R. 668) demised premises to the defendant for seven years from November 1st, 1946. In 1949 a supplemental deed was endorsed on the lease by which it was agreed that if the lessee gave the lessor the requisite notice the lease should thereupon be read, construed and take effect as though the term thereby granted were for a period of eleven years. In 1951 the defendant assigned the lease and the

option to the third party, and in the same year the third party assigned them to the fourth party. In 1952 the fourth party validly exercised the option and later in the same year assigned to X., who gave up possession in 1957 leaving rent unpaid and having committed breaches of the repairing covenants.

The Court of Appeal held, applying a dictum of Maugham, J., in *Re Savile Settled Estates, Savile v. Savile* ([1931] 2 Ch. 210), that the effect of the exercise of the option was to bring about a surrender of the

original lease and the grant of a new one, and, applying a dictum of Lord Greene, M.R., in *Hankey v. Clavering* ([1942] 2 K.B. 326; [1942] 2 All E.R. 311), that the exercise of the option took effect as a unilateral act for which the lessor's consent was not required. It followed that the defendant remained liable, by privity of contract as original lessee, in an action for damages for X.'s defaults, and further that the defendant was entitled to indemnity from the third party (by whom the appeal was brought).

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Practitioners and the Revenue

SIR, - I have read with great interest the correspondence on the subject of 'Practitioners and the Revenue' which has appeared in the issues of July 16th and 23rd.

Whilst I must admit that my relations with the Inland Revenue have on the whole always been both easy and amicable, I must none the less endorse the complaints of 'Seventeen Provincial Accountants' and of 'Provincial F.C.A.'.

A source of great irritation to me has been the tendency of certain Revenue officials to jump to the conclusion (without inquiry) that the records kept by sole traders are incomplete. Further, the fact that a client may not record every penny of his drawings as and when taken from the till, so that a balancing figure is inserted, seems to be regarded with the gravest suspicion, even though a proper recording till is in operation.

In addition to this, I have found a growing tendency on the part of Inspectors to demand an analysis of the client's drawings in the case of sole traders, a demand which I resist unless good reason can be shown for it. Surely this savours more of an investigation than of the normal business of agreeing the assessments arising out of accounts presented. It may be that the Inspector is in possession of information not in the hands of the luckless accountant. If this is the case he would be better assured of co-operation in clearing up any matter in doubt were he to put his cards on the table.

It is only fair to say that the mere sight of a letter containing a host of questions of this nature is irritating and that frequently a personal chat with the

Inspector soothes much of the irritation. None the less a different approach in the first place could have avoided any such trouble and relationships which would have been happier as a result.

Yours faithfully,
London, W10. H. GOODFELLOW.

Caravans: Wear & Tear

SIR, - We have been faced with the same question as your correspondent, Mr Luck (July 30th issue), having submitted to the Inspector of Taxes a yearly statement showing income, expenses and resulting profit. This we suggested would be more than covered by capital allowances and asked the Inspector what was the appropriate rate.

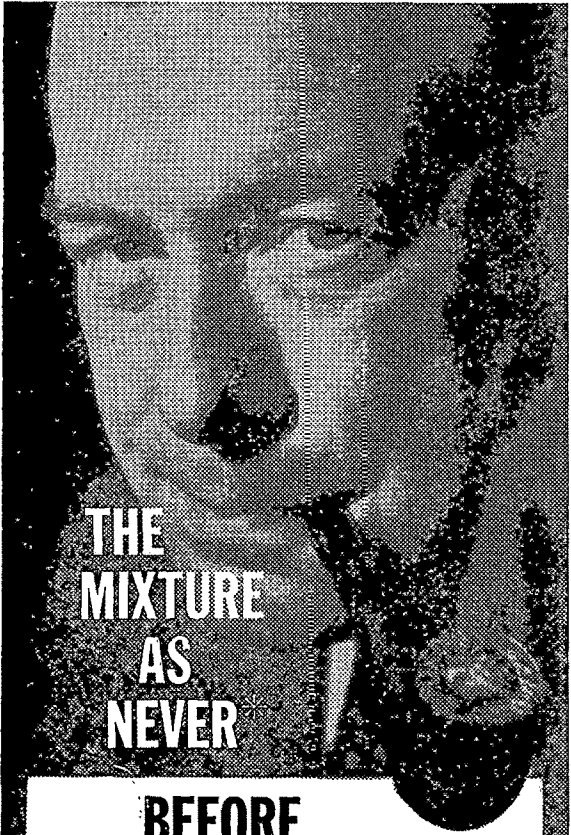
In reply we were informed that liability seemed to arise under Case VI rather than Case I of Schedule D, in which case no capital allowances would be due, but that it was common practice to allow in lieu of wear and tear an amount equal to 10 per cent of the gross rent.

On pointing out that it seemed to us that our client was carrying on a business, namely, that of letting out caravans to the general public, and that consequently there should be no difficulty about a Case I assessment, the Inspector asked for further information as to 'the organization and set-up generally' to enable him to agree that there was a 'trade'.

When we informed the Inspector that inquiries were received as a result of advertisements, recommendations, etc., and that these resulted in the lettings, the Inspector replied to the effect that he was prepared to accept that the caravan activities represented a trade and consequently capital allowances were given. The rate allowed was five-fourths of 10 per cent subject to a restriction appropriate to the proportion of private use when the proprietor used the caravan for his own holiday.

It is, however, important to show that the letting is carried on as a trade and that the caravan is not used mainly by the proprietor with just an occasional hiring out to make the odd pound or two towards expenses.

Yours faithfully,
PARDEY & WALSH.
Ashton-in-Makerfield, Lancs.



THE
MIXTURE
AS
NEVER

BEFORE

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Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES Banquet in Guildhall

Members of the Institute who contemplate attending the banquet to be held in Guildhall on October 10th next are reminded that the last day for applications to be received is August 25th. Application forms were sent to members on July 20th.

PROFESSIONAL NOTICES

MESSRS PRICE WATERHOUSE & Co announce that they have opened an office at 53 Rue Allal ben Abdallah, Casablanca, Morocco. The resident manager will be Mr N. H. BERROW, F.C.A.

MESSRS NICHOLSON, PLANT & Co, Chartered Accountants, of Old Bank House, Irongate, Derby, announce that on July 1st, 1960, Mr JOHN J. NICHOLSON, A.C.A., was admitted into partnership.

Appointments

Sir Alexander Fitzgerald, K.B., O.B.E., F.C.A.(AUST.), has been appointed chairman of Management Selection Australia Pty. Ltd.

Mr M. G. Talbot-Rice, M.A., F.C.A., has accepted an invitation to join the board of The City of London Real Property Co Ltd.

Mr H. L. Taylor, F.C.A., has been appointed a joint general manager of the Ever Ready Co (Great Britain) Ltd.

Mr J. K. Simpson, A.C.A., has been appointed a director of the British East Africa Corporation Ltd, and secretary of Cotts Holding (East Africa) Ltd.

IN PARLIAMENT

Building Societies: Investment of Funds

Mr COULSON asked the Secretary to the Treasury whether he will make a statement about the investments in which building societies will be authorized to invest their funds.

Mr BARBER: It is the intention of the Chief Registrar that the regulations to be made in due course under Section 11 of the Building Societies Act, 1960, governing the investment of funds which are not immediately required for its purposes should have the following effect:

1. Building societies will be authorized to invest funds without restriction in:

- (i) Tax Reserve Certificates;
- (ii) Defence Bonds;
- (iii) Treasury Bills and Northern Ireland Government Bills;
- (iv) Local Authority Bills;
- (v) Local authorities unsecured deposits at not more than seven days' notice;
- (vi) Marketable securities (i.e. securities quoted on a recognized stock exchange in the United Kingdom) bearing a fixed rate of interest and the terms of issue of which provide that the nominal capital value must be repaid at par or above not later than five years from date of purchase of the security by the society and which:
 - (a) are either issued by or guaranteed as to capital and interest by the United Kingdom Govern-

ment or Government of Northern Ireland;

- (b) are either issued by or guaranteed as to capital and interest by a Commonwealth Government;
- (c) are issued by a local authority in the United Kingdom;
- (d) are issued by a public authority (e.g. nationalized industry, water undertaking), in the United Kingdom;
- (e) are issued in London by the International Bank for reconstruction and development;
- (vii) Local authority loans secured by way of mortgage and the terms of which provide for repayment either not more than six months from the date of investment or at not more than six months' notice.

2. At any time when the book value of a society's holdings of investments set out in paragraph 1 exceeds $7\frac{1}{2}$ per cent of the total assets of the society at the end of the society's previous financial year, any further investments may also be made in the following:

- (i) marketable securities as defined in paragraph 1 (vi) but subject to a period to maturity of fifteen years instead of five years;
- (ii) local authority mortgages, the terms of which provide for repayment at par or above not later than two years from the date of the investment.

3. At any time when the book value of a building society's holdings of investments listed in paragraph 1 alone exceed $7\frac{1}{2}$ per cent of the total assets of the society at the end of the previous financial year, and, at the same time, the total book value of the society's investments as listed in paragraph 1 and 2 together exceed 15 per cent of the said assets, any further investments may also be made in the following:

- (i) marketable securities defined as in paragraph 1 (vi) above, but subject to a period to maturity of twenty-five years instead of five years;
- (ii) local authority mortgages, the terms of which provide for repayment at par or above not later than five years from the date of investment.

Under the terms of Section 11 cash in hand or cash with a bank or savings bank is outside the scope of these provisions.

It is intended that these provisions should operate from January 1st, 1961. Under the terms of the Act existing investments will be outside the provisions of the order and may continue to be held until they are redeemed or converted.

Hansard, July 29th, 1960. Written Ans. Col. 234.

AIR TRANSPORT LICENSING BOARD Chartered Accountant Appointed a Member

Mr Edward Baldry, O.B.E., F.C.A., senior partner in the firm of Allen, Baldry, Holman & Best, Chartered Accountants, of London, and a member of the Council of The Institute of Chartered Accountants in England and Wales, has been appointed by the Minister of Aviation as a member of the Air Transport Licensing Board.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 6 p.m. on Monday next in the vestry of St Mary Woolnoth Church, King William Street, EC3. The scripture for reading and thought will be 1 John, Chapter 3, verses 20 to 24 (Belief in Jesus Christ a commandment of God).

DOWN ON THE FARM

*Where are you going to, my pretty maid?
I'm going accounting, sir, she said.*

More than half the enrolments for a course on farm accounts to be held shortly by the Warwickshire Institute of Agriculture are expected to be women – farmers' wives and daughters – reports *The Times* of August 2nd. The course will comprise twenty evening sessions covering filing, invoicing, ordering, labour utilization, P.A.Y.E., livestock and machinery valuation, and cash analysis. In the best management accounting tradition, the students will be instructed in the use of the monthly accounts for the purpose of detecting and remedying deficiencies in farm methods and management.

**EAST ANGLIAN SOCIETY OF
CHARTERED ACCOUNTANTS**

At the recent annual general meeting of the East Anglian Society of Chartered Accountants, Mr Alan Norman Myers, F.C.A., a partner in the firm of Peters,



Mr A. N. Myers

Elworthy & Moore, Chartered Accountants, of Cambridge, was elected President of the Society for the ensuing year.

Educated at The Leys, Cambridge, Mr Myers was articled with Peters, Elworthy & Moore in 1930 and was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1935. He was taken into partnership in his present firm in 1941 and was elected a Fellow of the Institute this year. He has been a member of the Society's committee since 1950.

Other officers for the ensuing year were elected as follows:

Vice-President: Mr E. A. Bland, D.S.O., F.C.A. (Colchester).

Hon. Secretary and Treasurer: Mr H. Robinson, F.C.A., Elm House, 4 Elm Hill, Norwich.

Mr F. J. Eves, F.C.A. (Colchester) retires on October 1st, 1960, as one of the East Anglian representatives on the Institute's Taxation and Research Committee, and the meeting expressed very sincere appreciation of Mr Eves's work as a member of this committee for many years. Mr B. D. Shaw, F.C.A., and Mr H. Robinson, F.C.A., were elected as the Society's representatives on the committee for the year commencing October 1st, 1960.

Messrs R. H. Taylor, F.C.A. (Bury St Edmunds); A. K. Sheppard, F.C.A. (Norwich); A. J. Barnard, B.A., F.S.A.A. (Norwich); and E. F. G. Turner, F.C.A. (Norwich), were re-elected to the Society's committee.

**DUBLIN SOCIETY OF CHARTERED
ACCOUNTANTS**

At the recent annual general meeting of The Dublin Society of Chartered Accountants, Mr Leslie Gerald Chance, F.C.A., was elected Chairman for the year 1960–61.

Mr Chance served his articles with Messrs Price Waterhouse & Co and is a Fellow of both the Irish and English Institutes, being admitted to membership of the English Institute in 1936 and to the Irish Institute in 1943. He is a partner in the firms of Butler, Chance & Co, Chartered Accountants, and of Banner, Mounsey, Butler & Chance, Chartered Accountants, of Dublin, Chester, Liverpool and London. Other officers of the Society have been elected for the ensuing year as follows:



Mr L. G. Chance

Vice-Chairman: Mr R. A. Kidney, F.C.A.

Committee: Messrs R. R. Caldwell, A.C.A., E. J. Carroll, F.C.A., D. Daly, A. E. Dawson, F.C.A., J. F. Dempsey, A.C.A., P. A. Duggan, F.C.A., P. P. English, A.C.A., E. A. Grade, A.C.A., N. V. Hogan, F.C.A., G. F. Klingner, F.C.A., J. Love, F.C.A., R. I. Morrison, F.C.A., D. C. McKenna, C. O'Sullivan, H. W. Robinson, F.C.A., R. P. J. Smyth, F.C.A., C. G. Walker, A.C.A., D. McC. Watson, F.C.A., F. C. Winkelmann, A.C.A.

Hon. Secretary: Mr R. Carroll, A.C.A., 7 Fitzwilliam Place, Dublin.

Hon. Treasurer: Mr R. I. Morrison, F.C.A.

Assistant Secretary and Librarian: Miss E. A. K. Jenkins, 7 Fitzwilliam Place, Dublin.

The report of the committee for the year ended April 30th, 1960, shows that membership of the Society consists of 371 ordinary members and 219 student members.

Industrial and Administrative Group

New officers of the Society's Industrial and Administrative Group for 1960–61 are as follows:

Chairman: Mr P. P. English, A.C.A.

Hon. Secretary: Mr J. G. Lyons, A.C.A.

Committee: Messrs M. M. Connor, A.C.A., E. J. Carroll, F.C.A., J. F. Dempsey, A.C.A., E. A. Grace, A.C.A., J. D. Hollway, A.C.A., J. Lyons, A.C.A., F. C. Winkelmann, A.C.A.

Students' Group

Officers for the Students' Group, 1960–61, are:

Chairman: Mr R. I. Morrison, F.C.A.

Hon. Secretary: Mr D. C. McKenna.

Committee: Messrs J. Bastible, J. Bourke, L. Crowley, D. Daly, D. C. McKenna, P. Murnaghan, J. O'Neill, C. O'Sullivan, D. Ryan.

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SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 8th, 1885*A Weekly Note*

The Language Club of New York has decided that there are too many superfluous words in legal documents. In a deed of transfer in America at the present time, there are, it appears, 950 words of which 860 are not wanted. In an ordinary mortgage deed there are said to be 1,500 words, of which 1,200 might, without inconvenience, be discarded. For recording deeds of transfer and mortgages 10 cents is charged, and 688 deeds of transfer, and 788 mortgages are said to be the average number recorded each month in the state of New York alone. In the way suggested, *i.e.*, by making the use of the shorter forms obligatory 100,000 dollars a year might be saved.

If this is matter for regret in America, we are not the people to call attention to it, without remembering that there is a beam in our own eye which prevents our seeing clearly how to pull out the mote which appears to exist in our cousins' optics.

PREMIUM SAVINGS BONDS

The new series of Premium Savings Bonds, known as Series B, has been on issue since August 1st. The main features of the new series are:

- (a) the waiting period before a bond participates in the monthly prize draw will be three clear months (instead of six as hitherto);
- (b) the rate of interest on which the Prize Fund is calculated will be $4\frac{1}{2}$ per cent per annum in the first instance;
- (c) each bond participating in a draw will contribute one month's interest to the prize fund whether participating for the first time or subsequently;
- (d) the prize fund will be allocated on a new system, which provides for some prizes of £5,000.

Existing bond-holders need take no action to secure the advantages of the new terms. As from November 1st, 1960, any Premium Savings Bond of Series A which has not been repaid before that date will be deemed to be a bond of Series B. There will then be no practical difference between the bonds of the two series.

The maximum holding of Premium Savings Bonds has been increased from 500 to 800.

DOUBLE TAXATION RELIEF

Agreements with Sweden and Italy

A double taxation convention relating to duties on the estates of deceased persons and a revised double taxation convention relating to taxes on income, to replace

the convention signed on March 30th, 1949, between the United Kingdom and Sweden were signed in London on July 28th. Both conventions are subject to ratification.

The double taxation convention between the United Kingdom and Italy, which was signed on July 4th, was published on July 27th as Part I of a schedule to a Draft Order in Council. The convention, which is subject to ratification, provides for the avoidance of double taxation of income and profits, and is expressed to take effect in the United Kingdom from April 6th, 1956. It is, in general, similar to those which the United Kingdom has already made with other European countries.

TAXATION IN WESTERN EUROPE

Coming after the Prime Minister's appeal for a more energetic export drive, the second revised edition of *Taxation in Western Europe: A Guide to Industrialists*, published by the Federation of British Industries, provides a particularly valuable aid for industrialists investigating continental markets.

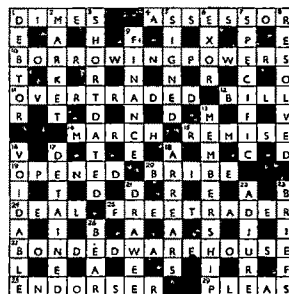
The booklet was first published in December 1959; the new edition is the result of heavy demand. Intended as a work of reference, it includes comparisons of various kinds of taxes and this is followed by details of the existing systems of taxation in Austria, Belgium, Denmark, Finland, France, Federal Republic of Germany, Italy, Luxemburg, Netherlands, Norway, Sweden, Switzerland and the United Kingdom. This useful work of reference will in future be published regularly in June each year.

Portugal and Spain have been omitted from this edition, but next year when both countries are likely to have finished with their task of fiscal reform, it is hoped they will be included.

Copies of the booklet are obtainable from the Federation's offices, 21 Tothill Street, London, SW1, price 30s post free.

BANK HOLIDAY CROSSWORD SOLUTION

The solution to the 'Bank Holiday Crossword', compiled by Mr Kenneth Trickett, F.C.A., which appeared in last week's issue, is as follows:



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COMPANY FORMATION IN BRAZIL

The Brazilian Chamber of Commerce and Economic Affairs in Great Britain recently published in booklet form the fourth edition of its memorandum on the setting up of a corporate organization in Brazil by a United Kingdom registered company with particular reference to the most suitable form of organization.

First published in October 1953, the memorandum is sponsored by Mr J. S. Carolin, M.B.E., F.C.A., a past chairman of the British Chamber of Commerce in Brazil. This simple, but very useful work of reference deals with all aspects which a company is likely to encounter. The present edition has been completely

revised and reflects the law as at May 1960. Copies of the memorandum are available from the Chamber at 60 Lincoln's Inn Fields, London, WC2.

BUSINESS EFFICIENCY EXHIBITION

The forty-eighth National Business Efficiency Exhibition, organized by the Office Appliance and Business Equipment Trades Association, is to be held at Olympia, London, from October 3rd to 12th.

Covering over 200,000 square feet of space, and with a record number of 154 firms participating, the exhibition promises to be the largest of its kind the United Kingdom has yet staged.

LONDON STUDENTS' COLUMN**News from the London Chartered Accountant Students' Committee****Students' Centre**

The subcommittee appointed to inquire into the practicability of starting a students' centre for the use of members of the Society have prepared a brief questionnaire which has been approved by the main committee. This questionnaire has been circulated to every member, both student and qualified, and since this problem is of great importance to the Society, it is hoped that everyone will oblige by expressing his or her views and returning the form so that as large a cross-section as possible can be obtained of opinions as to location, services to be given, and willingness to contribute towards the preliminary and day-to-day expenses. The closing date for the return of the questionnaire is August 31st.

Social and Other Activities

Three hundred and seventy-two students and friends attended the summer dance at the Hurlingham Club and enjoyed a most successful evening. The 59 Club's dance at the Coronet Club also proved a success.

The debating group held a play reading at Westfield College, and the Kingsway Club and the 59 Club ran a joint debate. The Taverners held a debate at which some well-known outside speakers were an attraction and this, also, was well received.

The Kingsway Club, in addition to their debate, arranged a theatre party and a visit to the *Daily Mail*.

Examination Prizes

The prizes awarded on the results of the November examinations, which awards had been delayed until it

was decided in what way the Morgan Prize would be presented, are as follows:

Final Examination

Sir Harold Howitt's Prize and a Plender Prize: R. J. Clark.
Plender Prizes: R. K. Fisk, C. H. Brown and R. R. Fleming.

Intermediate Examination

Plender Prizes: J. H. Bowman, A. Corner, R. J. M. Caffyn and N. Jaffer.

Sendell Prizes: H. J. Atkinson, R. A. Bambrrough, A. D. F. Fitz-Gerald, M. J. Geary, A. M. Rajpar and Miss P. Y. Reeder.

Ilford Branch

At Ilford on Monday, July 25th, a meeting was held to inaugurate a branch of the Society for Ilford and district. Mr C. H. I. Chown, F.C.A., was in the chair and there was a representative gathering of local and London students and several local principals.

After an explanation of the objects and the working of a local branch by Mr Tom Nadal, A.C.A., a member of the committee of the Society, and Mr R. J. Carter, B.COM., F.C.A., the Secretary, the branch was formally inaugurated by resolution and the following officers were appointed: *President*: Mr C. H. I. Chown, F.C.A.; *Hon. Secretary*: Mr M. P. V. Leigh, A.C.A.; *Hon. Treasurer*: Miss E. M. Engel; *Committee*: Mr A. G. Braxton, Miss C. M. Chown, Messrs H. L. Cousins, B. R. Harris, T. R. Layzell, B.Sc., and P. J. Stoneman.

A general discussion followed for the guidance of the committee on the frequency, place, time and nature of future activities.

It is hoped to have a full local programme in operation in the autumn. All local students will receive information.

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The New Charities Act

'IT is a long cry to the age of ELIZABETH and I think what is needed is a fresh start from a new statute.' These are the concluding words of the speech of LORD MACDERMOTT in *Oppenheim v. Tobacco Securities Trust Co Ltd, and Others* ([1951], A.C. 297, 319). His lordship was referring to the fact that it was still necessary, when considering whether or not a purpose was charitable, to look at the preamble to a statute of QUEEN ELIZABETH I, the Charitable Uses Act of 1601. Now, in the reign of QUEEN ELIZABETH II, we have a new statute, the most important in the field of charity for over a hundred years. But while the preamble to the Act of 1601 - kept alive till now by Section 13 (2) of the Mortmain and Charitable Uses Act, 1891 - is now finally gone, the cases decided with reference to that preamble remain the basis of the substantive law of charity, and the Charities Act, 1960, does not go nearly so far as LORD MACDERMOTT evidently felt a new statute should go.

Essentially, the new Act is concerned with the procedural rather than with the substantive law of charity, and only Section 14, which was introduced into the Bill during its passage through the House of Commons, changes the law with respect to gifts to charity. Apart from that, what the Act does - as its long title shows - is to clear away the tangled web of the Charitable Trusts Acts, 1853 to 1939, and certain other enactments relating to charities; to repeal the law of mortmain, a feudal survival which had long outlived its purpose but was a source of frequent difficulty, not only in relation to charitable trusts; and 'to make further provision as to the powers exercisable by or with respect to charities . . . and for purposes connected therewith'. The result is a great simplification of the statute law and new provisions calculated to ensure that charities provide that public benefit which is almost always the first essential of a charitable trust.

THE HOME SECRETARY, when the Bill had its second reading in the House of Commons, said of it that it made four major reforms directed to the social realities of today, and these reforms are the corner-stones of the new Act. First, the Charity Commission is reconstituted and THE HOME SECRETARY is made responsible to Parliament for the effective running by the Charity Commissioners of a public service - not, however, for their decisions, as to which they remain fully independent. For the first time a non-legal element is introduced into the body of Charity Commissioners, since only two of the three commissioners need be lawyers, and the new Chief Charity Commissioner, whose appointment has recently been announced, is drawn from the administrative side of the

Civil Service. Secondly, there is established a central register of charities, accessible to the public, and inclusion of a trust in this register raises a conclusive presumption that it is charitable as long as it remains there. The register must take a not inconsiderable time to compile; but it should, in due course, provide a valuable source of information and, in making the existence of charities entered therein more widely known, help to ensure that the best use is made of charitable resources. Thirdly, provision is made to encourage and assist voluntary co-operation between charities on the one hand and the statutory welfare services on the other. To this end, local authorities are empowered to maintain indices of local charities and to review local charities (but only with the consent of the trustees), while provision is made for co-ordinating the activities of charities and local authorities and charity trustees are empowered to co-operate with other charities and with local authorities and to that end to expend income of the charity. Fourthly, the occasions for applying property of a charity *cy-près* by means of a scheme made by the appropriate authority are given statutory expression and are in some degree extended. Furthermore, no doubt is left that it is the duty of trustees to take steps to obtain a scheme when there is a failure or partial failure of the existing trusts.

From a consideration of Section 13, which does not depart from existing principles, because it authorizes the application of property *cy-près* only if there is an underlying general charitable intent, it is natural to turn to Section 14 which, as indicated above, introduces new law. Where in the past moneys have been subscribed for a particular charitable object which has failed, the funds donated have been returnable to the donors, as the absence of a general charitable intent has left no room for the operation of the *cy-près* doctrine. Where, as is commonly the case where there is a widespread appeal, gifts have been received anonymously through the medium of collecting boxes, lotteries and similar money-raising activities, inquires ordered for the tracing of donors have necessarily been at most only partly successful, with the result that untraced moneys have had to be paid into Court, to lie there, unclaimed, indefinitely. A case providing a typical example of a failure of trust of this kind is *Re Ulverston and District New Hospital Building Trusts; Birkett v.*

Barrow and Furness Hospital Management Committee ([1956], Ch. 622). Section 14 gives effect to a widely held feeling that the law should be changed in such a way as to preserve for charity moneys given in such circumstances that it is reasonably clear that the donors never contemplated the possibility that their gifts might be returned to them. The provisions of the section are fairly elaborate, but its general effect is to allow application *cy-près* by scheme, in the event of failure of the initial trusts, of the contents of collecting boxes and of moneys raised by such activities as lotteries, competitions, entertainments and sales; and also of other moneys where the donor is either unknown or disclaims. The section applies to moneys raised before, as well as after, the commencement of the Act.

In an article on the Bill in our issue of February 13th, last, reference was made to the provisions dealing with the accounts of charitable trustees. These provisions have now become law with little amendment in their passage through Parliament, though not without some criticism, mostly by members who have sought to have certain classes of charity – e.g. certain religious charities – excepted from the requirement to submit accounts contained in Section 8. In this connection it should be observed that a charity excepted from being registered under Section 4 will not necessarily be relieved of the duty of submitting accounts under Section 8. The Government have, however, made it plain that the requirements as to the transmission of accounts will be enforced reasonably and, in particular, that small charities having permanent endowment may hope to be excepted, by orders or regulations, from the requirement to submit accounts yearly.

A number of orders and regulations will have to be made under the Act, not only in regard to accounts, but also in regard to other matters, e.g. the cases to be dealt with by the Charity Commissioners and those to be dealt with by THE MINISTER OF EDUCATION, and the compilation of the central register. Some at least of these may be expected before January 1st, 1961, when the greater part of the Act comes into force. Only Section 1 and Schedule I (dealing with the Charity Commissioners), Section 38 (repeal of mortmain), and Section 47 (powers of the Parliament of Northern Ireland) were effective on July 29th, when the Act received the Royal Assent.

COMPANY LAW COMMITTEE

The Association's Memorandum

THE Association of Certified and Corporate Accountants has submitted to the Jenkins Committee on Company Law a memorandum which contains a number of interesting and valuable recommendations. We shall be reproducing excerpts from the memorandum in our next issue.

Recognizing that the requirement that a private company shall have not less than two members has proved to be a legal fiction, since in practice many such companies are owned and controlled by one person only, the Association, like the English Institute, proposes that a private company with only one member should be allowed, but recommends that such a company should be required to have at least two directors, so as to provide for the continuity of the business and for some safeguard for creditors in the event of the decease or incapacity of the sole member. A sole member, himself a director, might well appoint as the second director the same person as he appoints as his executor, and it is recommended that in the event of the death of a sole member the holding of the annual general meeting be postponed until thirty days after the grant of probate or letters of administration, subject to a maximum period of nine months. Again like the Institute, the Association recommends that the category of 'exempt private company' should disappear: companies would either be 'public' or 'private', the latter broadly corresponding to the present exempt private companies.

The powers and duties of directors receive considerable scrutiny in the Association's memorandum. Particularly noteworthy are the recommendations that the directors of a company should not be able to introduce fundamental changes into its activities without the approval of the majority of members in general meeting, and that a company be prohibited from selling its undertaking and assets without similar approval. There is likely to be wide support for the view that the provisions of the Companies Act, 1948, do not sufficiently restrict or prevent the abuse of limited liability and that it should be possible to place

some restraint on the future activities of directors of a company which has failed, particularly when the consequences of bankruptcy are borne in mind. The Association differs from the Institute, and goes further than the Scottish Institute, in recommending that a body corporate be prohibited from being appointed a director of a company.

The Association recommends that all equity shares issued after an appointed day should have votes and that all equity shares carrying equal risks should have equal votes. With a view to giving further protection to minority shareholders, amendment of Section 210 on the lines of clause 201 of the Companies Bill (Northern Ireland) is recommended.

As regards take-over bids, the Association feels that *Notes on Amalgamations of British Businesses*, prepared by the Issuing Houses Association, and *Draft of the Licensed Dealers (conduct of Business) Rules, 1960*, issued by the Board of Trade under Section 7 of the Prevention of Fraud (Investments) Act, 1958, could form the basis of a comprehensive code for the future control of such operations.

The Association is of opinion that in general the accounting provisions of the Act have worked reasonably well, but recommends disclosure of some additional information and certain changes in the existing provisions. Some revision of the provisions dealing with the audit of accounts is also recommended. In particular, all companies should be required to have their accounts professionally audited. The part of the memorandum dealing with accounts and audit will be reproduced in full in our next issue.

Of the Association's recommendations as regards winding-up, the most interesting are those dealing with preferential payments. Here considerable amendment of the existing law is advocated. If the existing law were altered in this respect, it would clearly be very desirable to alter at the same time the equivalent provisions under the bankruptcy law, so that consistency between winding-up and bankruptcy might be preserved.

Basic Systems Simplification

by ROBERT G. A. BOLAND, B.A., F.C.A., C.P.A.

IN recent years, the rapid expansion of all branches of industry and commerce has led to a corresponding expansion in the use of business machines and equipment to keep pace with the ever-increasing demands of management and accounting. Modern business machine development has ranged from simple adding and calculating machines to elaborate punched-card equipment, and more recently, to electronic data-processing equipment. Accompanying this development, the technique of streamlining business systems has today established itself as an important and highly skilled section of the accounting profession.

While systems studies are, perhaps, mainly associated with the installation of machine accounting, such studies still maintain as their primary objective the increase of efficiency in all divisions of a business. Experience has shown that it is in the area of day-to-day routines, including purchases and sales, inventories, cash and payroll, that most clerical inefficiencies occur. It follows, paradoxically, that it is often possible to effect considerable improvements in these areas without the introduction of complex and costly business machines and equipment. Some common practical examples of system simplification without the introduction of any business machines and equipment are suggested below.

Elimination of Registers

The elimination of journals for recording invoices and other documents, and the substitution of copies of the original documents, can result in a considerable reduction in clerical activity without any loss of efficiency. An additional record of the documents concerned obviously cannot be more accurate than the documents themselves.

A common example is the use of copies of sales invoices (prepared simultaneously with the original) to replace the traditional sales day-book. The analysis of sales and the posting to the income and control accounts – purposes ordinarily served by the day-book – can easily be effected through the use of machine tapes, which can be attached to the file of invoice copies or bound separately in a control binder.

This principle can be applied in many recording areas: for instance, purchase orders can replace the purchase order register; the actual delivery notes themselves can constitute the goods received

register; and copies of the outgoing delivery notes can replace the shipping register.

It is common practice to enter details of goods received in a goods received register. At the same time a receiving report is usually prepared to support the payment of the invoice, with copies for use as source documents for stocks records.

This receiving report usually contains the same basic information as the purchase order and therefore additional copies of the purchase order can often be utilized as the receiving report. Quantities should be omitted from the receiving report copy so as to ensure proper counts being made by the receiving department upon delivery by the supplier.

Purchase Ledger

The usual system is to enter all invoices in a journal, post to the individual suppliers' accounts in the ledger, balance the ledger and pay the accounts. Where the accounts are 'clean' and invoices are paid regularly and promptly, this is an unnecessary procedure and considerable time can be saved by the adoption of a voucher system.

After checking the invoices with purchase-order receiving reports, a three-part voucher form is prepared for a batch of invoices from each supplier. The first part of the form will serve as a remittance advice to the supplier identifying the invoices being paid; the second part is entered in the voucher register for distribution of charges to the appropriate accounts; and the third part can be used as a source document for cash disbursements. Suppliers' statements will be largely ignored since payments are made against actual invoices. The supplier will certainly provide a control by issuing a reminder if an invoice has remained unpaid.

Sales Ledger

To eliminate the considerable amount of time spent in preparing and sending monthly statements, customers could be encouraged to pay against invoices. One means of achieving this is to send with the invoice an extra copy to be utilized by the customer as his remittance advice. Alternatively, the upper half of the invoice may be perforated so that it may be detached and used as the remittance advice.

As with the purchase ledger, the orthodox ledger system can often be eliminated by proper

use of copies of the original documents. Invoices can be machine-listed daily and filed in customer order in ledger trays containing unpaid (open) invoices. The daily totals of the invoices are entered in control accounts. On receipt of cash, the remittance advices are matched with the invoices and the paid invoices transferred from the open invoice file to paid invoice files. The daily totals of the remittances are entered in the control account. The balance of the control account should then represent the total of the invoices in the open invoice file.

Credit notes for returns, allowances, etc., can be dealt with in the same way as sales invoices, i.e. by dispensing with the journal and utilizing copies of the actual credit notes. Discounts, overpayments and other unusual items may be dealt with through an adjustments journal for control.

Here again considerable time and effort can be saved by the elimination of the columnar petty cash-book and the substitution of the actual petty cash vouchers.

Assuming the petty cash to be kept on an imprest system, periodically the vouchers can be sorted, machine-listed and summarized; an overall reimbursement voucher may then be prepared, indicating the accounts to be charged.

This method of accounting for petty cash is extremely simple and results in a considerable reduction in clerical work without any loss of control.

Stock Records

The cost of maintaining accurate stock records is generally very high, and often no distinction is drawn between high value stock and items of small value. In many cases, a considerable reduction in clerical costs may be effected by eliminating detail stock records for items of small value, and relying upon physical stocktaking for inventory valuation at year end.

As regards those stock items which necessitate detail records, it may not always be essential that receipts and issues be recorded daily since stock balances include at least a month's supply. Source documents can be sorted by stock numbers, machine-listed and posted to the stock records each week.

Another simplification of stock control concerns purchase requisitions. When the reordering level is reached, it is usually necessary to prepare a detailed purchase requisition for the purchasing department. Clerical work can be reduced by using a permanent travelling requisition card for each item of stock. This card gives a detailed description of the item, the supplier, code number,

and order quantity, and can be used repeatedly as a purchase requisition. It may sometimes be kept in the stock container or bin, or attached to the minimum reserve stock package.

Payment of salaries and wages by cheque is generally the most efficient and economical system, but is not always acceptable due to legal requirements or opposition by the employees themselves. However, in the case of large payrolls considerable time can usually be saved by rounding off pay packets to the nearest 10s or £, and adjusting the overpayment in the following pay.

Another method adopted in many European countries is to pay weekly round amounts in the form of payroll advances and compute the detailed gross and net pay only once every four weeks. This system simplifies payroll records considerably.

Multiple Forms

Multiple part forms are being used increasingly and some consideration should be given to the choice of copying methods available. Carbon paper inserted manually is both slow and messy. Accordingly the use of 'no carbon required' (NCR) paper, one-time carbon 'snap out' sets, or continuous stationery, while initially costly, may often lead to an eventual saving. Few companies who have adopted the use of one-time carbon paper or other 'made' methods ever return to the old system of manually inserted carbons.

Another method which often proves to be economical where large numbers of forms are required is the reproduction of standard forms from hectograph master copies.

Naturally improvement of multiple forms does not necessarily justify the use of a large number of different forms. Excessive numbers and sizes of forms should be avoided and non-essential or infrequently used forms should be ruthlessly eliminated.

Conclusion

The examples very briefly discussed in this article illustrate some of the inefficiencies of traditional accounting methods which may be eliminated by basic system simplification without the introduction of costly business machines and equipment. Such simplification is effected by studying routines and procedures with the objective clearly in mind; eliminate all unnecessary procedures and records and copywork in order to save time and reduce labour costs.

In these days of constantly rising costs, basic system simplification is often essential to many companies merely to hold accounting costs to their present level.

Company Law Amendment

Scottish Institute's Memorandum to Jenkins Committee

We complete below our reproduction of the memorandum of evidence submitted to the Committee on Company Law by the Council of The Institute of Chartered Accountants of Scotland. The Council's submissions on the heads of evidence Nos. 1 to 20 appeared, with a leading article on the memorandum, in last week's issue.

21. ACCOUNTS

Do the accounts require the disclosure of sufficient information about the financial position of the company, including its subsidiaries and associated companies? Are all the existing provisions necessary and useful in present-day conditions?

Subject to the comments made below, our answer to these questions is 'Yes'.

(a) Revaluation of fixed assets and use of any resulting surplus.

The accepted methods of treating fixed assets in balance sheets are by reference to:

- (i) the historical cost of the assets;
- (ii) a revaluation of the assets either by the directors or an independent valuator, or, possibly, by reference to index numbers.

The merits and demerits of each of these methods have been widely discussed for many years and no unanimity with regard to the questions arising has as yet emerged. Appendix I to this memorandum contains a statement in this connection which the Council issued to members of the Institute in 1953. We remain of the opinions expressed in that statement.

We have considered whether the time is ripe for any further legislation on the subject. In our opinion it would be neither desirable nor practicable to require by statute any form of revaluation of fixed assets. Nevertheless we consider that it would be appropriate for the Act to require some better description of fixed assets than is presently requisite.

We accordingly recommend that, unless the fixed assets are stated in the balance sheet by reference to a valuation made within the preceding fifteen years, every company should be required, in addition to complying with the existing requirements of the Eighth Schedule in relation to fixed assets, to give separately, on the one hand, figures for those fixed assets which were acquired within the preceding fifteen years and, on the other, figures for those fixed assets which were acquired earlier. We do not think it necessary, however, to make similar sub-divisions of the figures for aggregate depreciation.

We are of opinion that a surplus which emerges on a revaluation of fixed assets should not be available for distribution in cash to the shareholders.

(b) Share Premium Account.

We have had before us the suggestion that there should be a general widening of the purposes for which a share premium account can be applied, but in the time available to us for preparing this memorandum

we have not had sufficient opportunity of giving this suggestion full consideration.

For the present, and for the reasons outlined under heading 21 (c) below, we recommend that the purposes for which a share premium account may be used under Section 56 (2) should be extended to include a provision on the following lines:

'The share premium account may, to the extent of a dividend received by the company from a subsidiary company, be applied to reduce the cost of the investment in the subsidiary company where:

- (i) the share premium has arisen on the issue of shares by the company in exchange for shares in the subsidiary company;
- (ii) the subsidiary company has become a subsidiary company wholly by reason of the exchange of shares; and
- (iii) the dividend has been paid out of profits earned before the date of the exchange of shares.'

(c) Use of pre-acquisition profits of subsidiaries.

There is general agreement among accountants on the principle that where a holding company receives a dividend from a subsidiary declared out of profits earned before its acquisition such dividend should not be treated by the holding company as available for distribution to its shareholders, since it represents a reduction in the worth of the holding company's investment. Most modern opinion has it that this is a rule of practice only and not of law, but it is considered by some that the provisions of paragraph 15 (5) of the Eighth Schedule of the Act were intended to impose a restriction on the treatment of such profits.

We recommend that, to remove doubt on the matter, the principle should be incorporated in an amendment to the body of the Act. The new section should refer to dividends received from a subsidiary company and not to profits attributable to the subsidiary's shares, since it is only on the distribution of the profits that the question of treatment in the holding company's accounts arises. The provisions of paragraph 15 (5) of the Eighth Schedule, in so far as still required in connection with the statement under paragraph 15 (4), should be amended accordingly.

We consider that the exception under paragraph 15 (5), which is taken to cover the case of an internal transfer of shares within a group, should be provided for in the new section.

There is one type of amalgamation where it is thought that the strict application of the principle is unreasonable. This is where the consideration for the purchase price of the subsidiary's shares is not cash but wholly the issue of new shares of the holding com-

pany. In the ordinary case of such a transaction, whether it consists of the formation of a new holding company to acquire the shares of two or more amalgamating companies or whether it is a take-over by one company of another (the consideration being in new shares instead of in cash), the shareholders of the group remain substantially the same before and after the transaction. It is thought to be illogical that the revenue reserves previously available for distribution to shareholders by way of dividend should not remain so available after the amalgamation, as is the case if it is not permissible for the holding company to treat as profits available for distribution by way of dividend to its shareholders any dividends received by it out of the revenue reserves of the subsidiary at the date of amalgamation. We therefore recommend that, subject to the restriction referred to below, such dividends be excluded from the prohibition in the new section.

Where such an interchange of shares takes place, it frequently happens that the nominal amount of new shares issued is substantially less than the value of the shares of the new subsidiary acquired. If, in this case, the directors of the holding company, in issuing the new shares, take account of the full value of their acquisition, a share premium arises in the holding company (*Head v. Ropner* ([1952] Ch. 124)) and the investment in the new subsidiary appears in the holding company's balance sheet at its full value. Any dividend, therefore, paid by the subsidiary out of pre-acquisition profits would, if treated by the holding company as revenue, result in a reduction in the worth of the investment in the subsidiary company below the amount at which it is stated in the holding company's balance sheet. This conflicts with the general principle referred to above.

To avoid this difficulty a practice is growing up by which the directors of the holding company regard the shares of the company acquired as having a book value less than their full value. This book value may be equal to the nominal amount of the paid-up capital issued in exchange or may be intermediate between that amount and the full value. Since the investment in the new subsidiary appears in the holding company's balance sheet at less than its full value the directors can treat a pre-acquisition dividend as revenue in the assurance that the worth of their investment remains more than its book value. This practice has resulted in the issue by directors of holding companies of shares the issue price of which has been deemed to be substantially less than their full value.

We consider that it is not desirable and should not be necessary to resort to such an artificiality and that the difficulty which has been overcome by these means should be avoided by an extension in the permitted applications of the share premium account.

Our recommendations in this connection are as follows:

- (1) We recommend that the total value of shares issued by one company in exchange for shares in another company which becomes a subsidiary wholly by reason of such exchange shall, in the books of the former company, be treated as having a value equal to the full value of the shares acquired.
- (2) We recommend that a share premium arising on the transaction shall be available to write down

the book value of the investment in the subsidiary as recommended under heading 21 (b) above.

- (3) We recommend that dividends paid by the subsidiary out of pre-acquisition profits shall not be available for payment of dividends by the holding company unless, and only to the extent to which, the book value of the investment in the subsidiary has been so written down.
- (4) Arising from recommendation (1) above, we appreciate that in some cases, particularly where preference shares are issued in exchange for similar shares, the value attributed to the shares issued may be less than their nominal value, so that the shares will thus be issued at a discount. We therefore recommend that Section 57 be amended to permit, in such circumstances, the issue of the shares at a discount without either the authority of the company in general meeting or the sanction of the Court. It appears to us that the severe restrictions imposed by Section 57, however necessary in the case of issues for cash, were not intended to apply to special circumstances such as these.

We offer the following further comment on these recommendations:

- (i) In the case of the formation of a new holding company to amalgamate the interests of two or more undertakings we contemplate that the amount of nominal capital issued would not exceed the total issued capital and capital reserves of the individual undertakings (adjusted to take account of the difference between the book value and market value of the net assets). The share premium account will then in general be not less than the total amount of these companies' revenue reserves and will thus fully cover any distribution of pre-acquisition profits.
- (ii) Where a subsidiary is acquired for a consideration consisting partly of shares and partly of cash or other assets, each part of the consideration should be deemed to acquire a *pro rata* share of each item of capital and reserves of the subsidiary. The portion of the revenue reserves deemed to be acquired in exchange for the new holding company shares would then be available in accordance with the above recommendations; the balance would be frozen by the general rule as to non-distribution of pre-acquisition profits.
- (iii) If the above recommendations are carried into law we do not expect that they will result in any great change of policy on the distribution of pre-acquisition profits except possibly in the first year of new holding companies. The effect of them will, however, be immediately seen in the group accounts of companies concerned where the appropriate proportion of the share premium account in the holding company's balance sheet will be dealt with in the consolidated balance sheet as a revenue reserve.

(d) Description of reserves.

Paragraph 4 (1) of the Eighth Schedule requires in relation to the balance sheet that 'the reserves, provisions, liabilities and fixed and current assets' shall be classified under headings appropriate to the company's business. This provision therefore fails to deal with

certain items which cannot readily be classified under any of the specific headings quoted. An example of such an item is future taxation based on profits actually earned. The general practice is tending towards showing future tax as a separate item – neither as a reserve nor as a liability – but, as indicated above, paragraph 4 (1) of the Eighth Schedule does not specifically permit this to be done.

We accordingly recommend that paragraph 4 (1) be amended so as to provide that any item which cannot appropriately be classified under any one of the headings mentioned in that paragraph shall be separately classified and described.

We also recommend that it be made necessary to show separately special reserves created in accordance with special provisions in the company's articles.

(e) *Definition of profits.*

The word 'profits' frequently appears at various stages in accounts from the gross manufacturing surplus to the final balance after making provisions for tax. We consider that the word 'profits' should not be used until the stage is reached when all charges, including depreciation, have been provided for. We see no objection, however, to the use of a description such as 'profits subject to tax' where net profits after provision for tax are also shown. While this greater care in the use of the word 'profits' would be advantageous, we do not consider that legislation on the subject would be appropriate.

(f) *Exemption of banks, assurance, shipping companies from some of the accounting provisions of the Companies Act, 1948.*

There can be no adequate reason on purely accountancy grounds for the exemptions afforded by Part III of the Eighth Schedule. As matters stand, however, the auditor can be placed in a somewhat invidious position in relation to a company to which that schedule applies. Under the Ninth Schedule it is said that his certificate as to 'a true and fair view' is to be 'subject to the non-disclosure of any matters (to be indicated in the report) which, by virtue of Part III of the Eighth Schedule to this Act, are not required to be disclosed'. Nevertheless, it is difficult to see how in any sense 'a true and fair view' can be produced where, for example:

- (i) the disclosed results are distorted by exceptional items and changes in the basis of accounting;
- (ii) profits have been arrived at after the transfer of unspecified sums to or from reserve.

All the exceptions contained in Part III of the Eighth Schedule to the Act were, we recognize, introduced on grounds of public policy to which considerations of accountancy principles were made to yield. If it is decided that it is in the public interest that the present position should continue then we would recommend the revision of the Ninth Schedule so as to require the auditors to state in their report in the case of a company entitled to the benefit of Part III of the Eighth Schedule whether in their opinion the balance sheet and profit and loss account of the company 'are properly drawn up so as to disclose the state of the company's affairs' at the date of its balance sheet and its profit or loss for the financial year then ended 'so far as is required by the provisions of the Act applicable to' the class of company concerned.

[(g) *Other points on accounts.*]

[(1) *Trade investments.*]

We have considered whether 'trade investments' (which are referred to in paragraphs 8 (1) (a), 11 (8) and 12 (1) (g) of the Eighth Schedule) should be defined in the Act. We do not think such a definition desirable, as there should be scope allowed here for the directors' and auditor's discretion.

We are of opinion that, in so far as the amounts are material, in relation to trade investments which do not fall to be treated as investments in associated companies or in subsidiary companies, information should be required to be given in the manner recommended under heading 14 above as regards investments in associated companies.

[(2) *Interest payable.*]

In relation to the profit and loss account, paragraph 12 (1) (b) of the Eighth Schedule provides that there shall be shown the amount of the interest on the company's debentures and other fixed loans. We consider that in addition, and as a separate item, there should be shown, if material, interest on loans of a temporary nature, such as, for example, bank overdraft.

[(3) *Profits or losses of subsidiaries where there are no group accounts.*]

Under Section 150 (2) (a) group accounts are not required where the company is, at the end of its financial year, the wholly-owned subsidiary of another body corporate. Even where group accounts are not required under this subsection, however, there is under paragraph 15 (4) (b) of the Eighth Schedule an obligation to state the amount of the subsidiaries' profits or losses.

It appears to us that, in those cases where under Section 150 (2) (a) group accounts are not required, there is no reason why the statement as to subsidiaries' profits which paragraph 15 (4) (b) requires should be given. Presumably the reason why group accounts are not required in the circumstances envisaged in Section 150 (2) (a) is that they would serve no useful purpose since there would be no outside shareholders.

The same reasoning would appear to apply to the statement of profits or losses of subsidiaries for which paragraph 15 (4) (c) provides.

22. AUDIT

(a) *Qualifications and appointment of auditors.*

Under Section 161 (1) a person is not qualified for appointment as auditor of a company unless either:

- (a) he is member of a body of accountants established in the United Kingdom and for the time being recognized for the present purpose by the Board of Trade; or
- (b) he is authorized by the Board of Trade either as having similar qualifications obtained outside the United Kingdom, or as having obtained adequate knowledge and experience in the course of his employment by a member of a body of accountants recognized under (a) above, or as having before August 6th, 1947, practised in Great Britain as an accountant.

The bodies presently recognized under (a) above are the three Institutes of Chartered Accountants in the British Isles and The Association of Certified and Corporate Accountants.



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We recommend that:

- (i) the bodies presently recognized under Section 161 (1) (a) be named in the Act, the power to vary the list being exercisable by the Board of Trade by statutory instrument subject to affirmative resolution procedure; and
- (ii) the power of the Board of Trade to authorize persons having similar qualifications obtained outside the United Kingdom be moved from sub-paragraph (b) to sub-paragraph (a) of paragraph (1) of Section 161.

The adoption of recommendation (i) would be in conformity with other legislation passed since the Act. The adoption of recommendation (ii) would avoid including, in the same category as unqualified accountants, overseas accountants with high qualifications.

(b) Duties and responsibilities of auditors.

We consider that the duties and responsibilities of auditors should be neither extended nor diminished. We do, however, think that the manner in which auditors express their conclusions in their reports to the shareholders of companies is not at present satisfactory. The normal form of report under the Act has been criticized as over-long, over-cautious and unclear to the layman, but in view of the heading to the Ninth Schedule – 'Matters to be expressly stated in the Auditors' Report' – many accountants have taken the view that they are bound to deal *in extenso* with all the relevant matters contained in the schedule.

On the basis of the wording of the present Ninth Schedule – and ignoring for the moment the amendment to that schedule suggested under heading 21 (f) above – we recommend that Section 162 (1) and the Ninth Schedule be amended on the following lines:

Section 162 (1)

The auditors shall make a report to the members on the accounts examined by them, and on every balance sheet, every profit and loss account and all group accounts laid before the company in general meeting during their tenure of office, and the report shall contain statements as to any matters mentioned in Part I of the Ninth Schedule to this Act on which the auditors have not been satisfied or on which they are unable to form an opinion, as the case may be, and shall contain statements as to the matters mentioned in Part II of the said schedule.

Ninth Schedule

Part I

Matters deemed to be stated in the auditors' report, unless the contrary is expressly stated.

- (1) That they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit.
- (2) That, in their opinion, proper books of account have been kept by the company, so far as appears from their examination of those books, and proper returns adequate for the purposes of their audit have been received from branches not visited by them.
- (3) That the company's balance sheet and (unless it is framed as a consolidated profit and loss account) profit and loss account dealt with by

the report are in agreement with the books of account and returns.

- (4) That, in their opinion and to the best of their information and according to the explanations given to them, the said accounts give the information required by this Act in the manner so required.
- (5) In the case of a holding company submitting group accounts that, in their opinion, the group accounts have been properly prepared in accordance with the provisions of this Act.

Part II

Matters to be stated in auditors' report.

- (1) Whether, in their opinion:

- (a) the company's balance sheet gives a true and fair view of the state of the company's affairs as at the end of its financial year; and
- (b) the profit and loss account gives a true and fair view of the profit or loss for its financial year,

or, as the case may be, the balance sheet and the profit and loss account give a true and fair view as aforesaid subject to the non-disclosure of any matters (to be indicated in the report) which by virtue of Part III of the Eighth Schedule to this Act are not required to be disclosed.

- (2) In the case of a holding company submitting group accounts whether, in their opinion, the group accounts give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries dealt with thereby, so far as concerns members of the company, or, as the case may be, give a true and fair view thereof subject to the non-disclosure of any matters (to be indicated in the report) which by virtue of Part III of the Eighth Schedule to this Act are not required to be disclosed.
- (c) Exemption of 'exempt' private companies from the provisions of Section 161 of the Companies Act, 1948.

Subsection (1) of Section 161 provides that no person shall be qualified for appointment as auditor of a company (other than an exempt private company) unless he fulfils certain conditions. We recommend that this exception in favour of exempt private companies should be removed. Auditing is a highly technical function and an audit carried out by a layman may be worse than no audit at all since it may discourage members from questioning the correctness of the accounts. We consider that public policy requires a professional audit for all companies.

[(d) Other points relating to auditors.]

[(1) Notice of change of auditors.]

We are of the opinion that an auditor's power under Section 160 to require a company to circulate a statement by the auditor should be reinforced by empowering the auditor to require the company to send out a two-way proxy.

We are further of the opinion that the notice which, in terms of Section 160, is to be given to the retiring auditor should also be sent to the proposed auditor.

[(2) Appointment of auditors.]

Section 159 (1) provides that 'every company shall

at each annual general meeting appoint an auditor . . .'. This seems, however, to be in conflict with the automatic procedure required by subsection (2) whereby a 'retiring auditor . . . shall be appointed without any resolution being passed . . .'. Further, subsection (2) seems to apply even where the directors have under subsection (6) filled a casual vacancy in the office of auditor.

In our opinion Section 159 should be amended so that:

- (i) at the first annual general meeting of a company, or at the annual general meeting following the filling by the directors of a casual vacancy in the office of auditor, a resolution regarding the appointment of an auditor should be submitted; and
- (ii) where an auditor appointed at a general meeting is to continue in office for a further year, a formal reappointment should not be necessary.

23. PROVISIONS AS TO RETURNS

So long as the true ownership of shares can be concealed by nominee holdings, we see no necessity for the disclosure in the annual return (as is at present required by paragraph 5 (a) and Part II of the Sixth Schedule) of particulars of shares transferred by persons who have ceased to be members.

24. COMPANY AND BUSINESS NAMES

Effectiveness of present provisions (see Sections 17 to 19 of Companies Act, 1948, and the Registration of Business Names Act, 1916); similarity of names; misleading names.

We have no evidence of any need for any change.

25. FOREIGN COMPANIES

We do not recommend any change.

26. INTERNAL MANAGEMENT AND ADMINISTRATION

(a) Annual and other general meetings.

[(1) Holding of meeting 'in each year'.]

By Section 131 every company is required to hold an annual general meeting 'in each year' and by Section 148 (1) accounts are required to be laid before the company in general meeting once at least 'in every calendar year'. It would appear from *Gibson v. Barton* ((1875) L.R. 10 Q.B. 329) that the expressions 'year' and 'calendar year' both mean the period from January 1st to December 31st.

Strong reasons of practical convenience may suggest that a company which has been accustomed to hold its annual general meeting in, say, December should change to, say, the ensuing January.

We suggest that a company should be empowered in suitable cases, and subject to such conditions as the Board of Trade may prescribe, to dispense with the necessity in a particular calendar year:

- (i) to hold an annual general meeting; and
- (ii) to present accounts.

[(2) Notice to auditors of meeting.]

Since, under Section 162 (4), the auditors are entitled to attend any general meeting of a company, we recommend that Section 133 (3) be amended so as to require

the agreement of the auditors where a meeting is called on shorter notice than that specified in the Act or in the company's articles.

[(3) Documents to be circulated to shareholders etc.]

Under Section 158 (1) the shareholders are to receive a copy of the balance sheet 'including every document required by law to be annexed thereto'. The directors' report (which by Section 157 (1) is to 'be attached to every balance sheet laid before the company in general meeting') is by Section 163 specifically excluded from the documents required to be annexed to a company's accounts.

In our opinion the directors' report should not be divorced from the circulated accounts and Section 158 should accordingly be amended so as to require the directors' report to be circulated with the accounts.

We recommend there be required to be included among the documents required to be circulated to the shareholders a list of the directors at the date of the report (showing any changes since the date of the previous report).

It has been suggested that a copy of a company's accounts must be sent to heritable bondholders and mortgagees of assets of the company by reason of Section 158 and the definition of 'debenture' in Section 455. Such a requirement was presumably not intended, particularly as applied to private companies. We accordingly suggest that the Act might be amended by narrowing the definition of 'debenture' as applied to Section 158 so that the requirement to send accounts should be confined to members and debenture-holders not being heritable bondholders or mortgagees of assets, or, alternatively, that accounts need be sent to heritable bondholders and mortgagees of assets on demand only.

(b) Mode of passing extraordinary and special resolutions.

We see no objection to the present position.

(c) Securing proper disclosure of information in circulars seeking proxy votes.

At present under Sections 134 (a) and 141 and under paragraph 50 of Table A it is necessary in giving notice of a general meeting to specify:

- (i) in the case of special business, the general nature of the business; and
- (ii) in the case of an extraordinary or special resolution, the intention to propose the resolution as an extraordinary or special resolution.

In practice considerably more information is usually given by public companies than the Act requires. It would appear to be desirable, however, that shareholders should have the right to be put in possession of proper information. Accordingly we recommend that the best of current practice should be recognized by providing that, whether or not proxy votes are sought, notice of any special business or of any extraordinary or special resolution should be accompanied by such information, if any, as is necessary to enable the shareholders to appreciate the nature of the special business or to judge the effect of the resolution.

(d) Exercise of voting rights in cases of interlocking shareholdings, unit trusts, and in other special cases, e.g. by trustees of pension and welfare funds for employees in relation to shares held by such funds in the employer or any associated company.

We have no recommendation to make in this connection.

27. WINDING UP

Since our recommendations under this head are on relatively minor matters we have set them out in Appendix II to this memorandum.

28. PROBLEMS OF ADMINISTRATION AND ENFORCEMENT OF THE LAW

In particular, are any difficulties caused by provisions which appear obsolete or inappropriate in modern conditions?

Apart from the suggestions put forward elsewhere in this memorandum we have no suggestions to offer under this head.

29. ANY OTHER MATTERS WITHIN THE TERMS OF REFERENCE

[(a) *The directors' report.*]

We have considered the provisions of Section 157 (1) as regards the directors' report.

We suggest that:

- (i) when the report is circulated with the accounts (as to which we would refer to heading 26 (a) (3) above) it should be permissible to refer in the report to the proposed allocations of profits shown in the accounts without setting out any figures in this connection in the report itself;
- (ii) unless the information is given elsewhere in the accounts, it should be made necessary to provide in the directors' report particulars regarding any additional capital issued during the period under review and the circumstances in which such capital was issued; and
- (iii) in a group the report should cover the group and in so far as figures are given they should be the figures for the whole group, although there would be no objection to showing the figures of the holding company as well as those of the group: at present it would seem that the report could be confined to the holding company's figures and could accordingly mean very little.

[(b) *Publication of directors' names.*]

[(1) *Business letters.*]

Section 201 (1) requires every company to which that section applies to state particulars with respect to its directors in, *inter alia*, most of its business letters.

Section 201 applies to:

- (a) companies registered after November 22nd, 1916;
- (b) companies incorporated abroad which had not established a place of business within Great Britain before November 23rd, 1916; and
- (c) companies licensed under the Moneylenders Act, 1927, whenever incorporated.

At the present time there are many companies in existence which were registered before November 23rd, 1916, and which have now no real connection with their original founders: some of these companies have in fact even been bought over purely to avoid the necessity of disclosing the names of the directors on the company's letter headings and other literature. In all cases, however, the names of the directors can be

ascertained by reference to the Registrar of Companies.

November 23rd, 1916, is now over forty-three years ago and we feel that the relevancy of that or any other date is due for reconsideration.

We take the view that there is little to be gained – and much inconvenience and unnecessary expense entailed – by the publication of directors' names and therefore recommend that such publication should no longer be required. We would, however, exclude exempt private companies from this proposal and suggest that exempt private companies, whatever the date of their incorporation, should be required to disclose the names of their directors on their business letters.

[(2) *Trade catalogues, trade circulars and showcards.*]

Section 201 (1) requires every company to which that section applies to state particulars with respect to its directors 'in all trade catalogues, trade circulars, showcards and business letters on or in which the company's name appears and which are issued or sent by the company to any person in any part of Her Majesty's dominions'.

We have referred above to business letters. So far as the other documents are concerned, the provisions of Section 201 (1) are largely ignored in practice, even if it can be assumed that the publication of the directors' names is only required where the full name of the company appears. We see no reason for requiring the directors' names to be disclosed at all in such documents and suggest that Section 201 (1) be amended accordingly.

[(c) *Definition of 'officer'.*]

The definition in Section 455 is as follows: "officer" in relation to a body corporate, includes a director, manager or secretary'. This does not purport to be, and clearly is not, exhaustive. For example, an auditor is, at least for some purposes, an officer. And Article 136 of Table A indemnifies 'every director, managing director, agent, auditor, secretary and other officer'. The inclusion of 'agent' seems to indicate that the category of officer may be much wider than the definition in Section 455 would suggest.

In the case of charges under, for example, Section 328 *et seq.* (offences antecedent to or in course of winding up), it may be of concern mainly to the prosecutor and the accused whether the latter is or is not an officer. But the question sometimes has to be determined in the ordinary course of management of a company. In particular, Section 197 requires disclosure in the annual accounts of any loans made to any officer, and both directors and auditors may have to determine whether a person is or is not an officer. For the purpose of this section, at least, an exhaustive definition would be desirable.

We realize that while the introduction of an exhaustive definition would clarify the position for the purposes of Section 197, it might raise problems in relation to other provisions of the Act. Fundamentally, the difficulty seems to us to arise from the use of the same term 'officer' in different contexts and in possibly differing senses.

[(d) *Retirement of directors under age limit.*]

We have considered the working of Section 185 in its application to those who have attained the age of 70.

In our opinion a date should be fixed as from which

contracting out of the provisions of Section 185 should not be permissible and any then existing arrangements for contracting out should cease to be effective.

We recommend that as from the date suggested above:

- (i) any provisions affecting retirement of directors in rotation be applicable only to directors who have not yet attained the age of 70;
- (ii) every director be required to retire at the annual general meeting following his seventieth birthday; and
- (iii) no person who has attained the age of 70 be capable, without re-election, of continuing to hold office as a director for more than two years after his election or re-election.

[(e) *Disclosure of directors' remuneration.*]

We consider that Section 198 (1) should be amended so as to require a notice in writing from each director covering all emoluments, pensions and compensation receivable by him, together with the amount of all benefits chargeable in his hands to United Kingdom tax.

Whereas under Section 196 (2) expenses have to be included as remuneration in so far as they are charged to United Kingdom tax, the estimated money value of other benefits has to be disclosed whether they are taxable or not. We consider that only benefits which are charged to United Kingdom tax should be required to be disclosed.

[See heading 21 (a)]

APPENDIX I

ACCOUNTING IN RELATION TO CHANGES IN THE PURCHASING POWER OF MONEY

STATEMENT ISSUED IN 1953 BY THE COUNCIL TO
MEMBERS OF THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF SCOTLAND

1. The 'historical cost' basis which is so widely used in the measurement of profit has proved satisfactory when the value of money is steady or is changing slowly. On the other hand the limitations of this basis are evident and serious in periods of rapidly changing money values. The experience of the post-war years has demonstrated a clamant need for new conventions and methods which will compute the profit element in terms of current monetary costs as distinct from historical costs. Accountants in many parts of the world have been actively engaged in seeking appropriate solutions to this problem. In particular, much attention has been given to the treatment of depreciation and to the valuation of stock, which are probably the two most important single factors involved in this question. While steady progress has been made in the development of new methods, the advance has so far been carried out almost entirely on the theoretical plane and little or no evidence is yet available of the effectiveness of new techniques applied over a period to practical cases. Since the development is still at the theoretical stage it is not surprising that considerable divergence of view prevails amongst accountants as to the new conventions which will best meet both inflationary and deflationary movements.

2. The Council's view is that until some of these divergencies have been resolved on the basis of practical experience it is clearly inappropriate for a professional body to advocate to its members the adoption of any particular method. On the other hand, the Council holds the view that the accountancy bodies, singly and collectively, should now urge their members to take an active part in promoting the practical application of new conventions, and should

give collective support where possible to practical experiments and research.

3. In so far as the position of an auditor is concerned, the Council is of opinion that what constitutes 'a true and fair view' of the state of the affairs of a company and of the profit for a stated period must always be a matter for decision in relation to the facts of a particular case, but that there is no reason in principle why an auditor should qualify his report on accounts by reason only of some disclosed departure from the basis of 'historical cost'.

4. The Council would welcome experiments by individual undertakings which have as their objective the presentation of accounts in which all items in the trading and profit and loss account are expressed in pounds sterling of the same purchasing power. The problem arises not only in the presentation of the results of each year or other financial period, but also in the presentation of the results for a number of financial periods, particularly where it is desired to establish trends. The desirability of showing in the balance sheet the capital employed expressed in pounds sterling of the same money value also merits consideration. The importance of the problem varies as between one undertaking and another. What can or might be done should only be decided after very careful consideration of the facts of each particular case. Where there is a departure from the basis of 'historical cost' (whether in the body of the financial accounts or by way of supplementary figures or statements) what has been done and the basis adopted should be clearly shown.

5. It is considered that in the field of management accounting it is eminently desirable, in many cases, that account should be taken of changing money values. Failure to do so in times of progressive inflation may well create a complacent attitude not in the best interest of any undertaking as a continuing concern. In management accounting many statements are prepared only for the guidance of those engaged in the day-to-day administration of the undertaking and the planning of its future activities. The values to be used in these cases should be those which will most realistically reflect the outcome of the trading operations of the undertaking and its financial stability.

APPENDIX II

27. WINDING UP

(1) *Powers of liquidator - Winding up by the Court*

In a winding-up by the Court the liquidator is empowered under Section 245 (1) (c), with the sanction of the Court or the committee of inspection, to appoint a solicitor to assist him in the performance of his duties.

We see no necessity for this sanction and recommend that Section 245 (1) be amended accordingly.

(2) *Powers of liquidator - Members' voluntary winding up.*

In a members' voluntary winding up, Section 303 (1) (b) enables the liquidator to exercise without sanction, *inter alia*, the power to appoint a solicitor conferred by Section 245 (1) (c). Under Section 303 (1) (a), however, the liquidator requires the sanction of an extraordinary resolution of the company to exercise the powers conferred by the under-mentioned paragraphs of Section 245 (1) which deal with:

- (d) payments of any classes of creditors in full;
- (e) compromise of claims against the company; and
- (f) compromise of calls, etc.

We consider that the power referred to under paragraph (d) (like the power to appoint a solicitor) should be exercisable by the liquidator without sanction and as part of his normal duties.

We recommend that Section 303 be amended accordingly.

(3) *Account of liquidation proceedings - Members' and creditors' voluntary winding up.*

Under Sections 289 and 299 the liquidator must, where a winding up continues for more than one year, 'lay before' a meeting of members (in the case of a members' voluntary

winding up) or meetings of members and creditors (in the case of a creditors' voluntary winding up) an account of his acts and dealings and of the conduct of the winding up during the preceding year. Similar provisions apply to the final meetings under Sections 290 and 300.

We consider that unless:

- (a) in the case of a members' voluntary winding up, the members in general meeting; or
- (b) in the case of a creditors' voluntary winding up, the committee of inspection

otherwise determine, the notice calling the meeting should be required to be accompanied by the liquidator's account and his estimate of the likely outcome of the liquidation.

We recommend that Sections 289, 290, 299 and 300 be amended accordingly.

(4) Audit of liquidation accounts – Members' and creditors' voluntary windings up.

We recommend that the Act should be so amended as to require that, unless the committee of inspection or the members by ordinary resolution (as the case may require) otherwise determine, the liquidator's accounts be submitted for audit to a person qualified under Section 161 for appointment as the auditor of a company.

(5) All classes of winding up – Advertising for claims.

In the case of a winding up by the Court, Section 264 provides for a time to be fixed within which creditors are to prove their debts or claims, or to be excluded from the benefit of any distribution made before the debts are proved. We recommend that the Act be amended to confer on the liquidator in the case of a members' voluntary winding up, and on the liquidator with the sanction of the committee of inspection in the case of a creditors' voluntary winding up, the right to fix a time, being not less than four months from the date of intimation by the liquidator, within which the creditors are to prove their debts or claims against the company, or to be excluded from the benefit of any distribution made before the debts are proved.

(6) Accounts to date of liquidation – All classes of winding up.

It is notable that there is nothing in the Act which requires the production by a company of audited accounts for the period from the date of the last balance sheet presented to the members up to the date of the liquidation.

We recommend no alteration in the law in this respect in the case of a winding up by the Court or a creditors' voluntary winding up, but we recommend that in the case of a members' voluntary winding up it should be made obligatory to send to the members and (except in the case of an exempt private company) also to the Registrar a copy of audited accounts covering the period from the date of the last balance sheet submitted to members up to the date of liquidation.

(7) Notice by liquidator of his appointment – Members' and creditors' voluntary winding up.

We recommend that Section 305 be amended to require the liquidator to publish notice of his appointment in a newspaper circulating in the district where the company's registered office is situate in addition to the publication in the *Edinburgh Gazette*.

(8) Proxies and affidavits.

Before a creditor can vote at a creditors' meeting in the case of a creditors' voluntary winding up in Scotland he must produce an affidavit to prove his debt. We consider that having regard to the limited time that is frequently available it is unreasonable to insist on an affidavit. We take the view that a creditor should be entitled to vote, either in person or by proxy, if he shows prima facie evidence of a claim. There should be a right of appeal to the Court in the event of a dispute.

(9) Winding up by the Court in Scotland.

We suggest that the procedure for winding up by the Court in Scotland be reviewed with a view to securing, if possible, greater speed and reduction of costs as compared with the present procedure. *(Concluded.)*

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

GERMANY

Profit and Loss Account Problem

THE provisions of the recent German company legislation concerning the form of the profit and loss account have given rise to considerable discussion among accountants there. They require that certain items shall be shown separately which have hitherto been merged in one figure, notably 'raw materials, purchases of finished goods, and services of a similar kind (*gleichzusetzende Fremdleistungen*)'. These categories of expenditure are examined by a contributor in a recent issue of *Die Wirtschaftsprüfung*.

By 'finished goods', the author understands is meant those manufactured, movable articles which can be the subject of wholesale or retail trading, and which are saleable without substantial changes or modifications. When it is considered that the purchases of a manufacturing business include raw materials, parts, consumable supplies, small tools, and so on, and that none of these is normally destined for sale in the form of the purchase, a part of the difficulty

becomes apparent. Some commentators include heating, packing and cleaning materials and office supplies in the same group. The Institut der Wirtschaftsprüfer, in an official statement, has said that electric current purchased is also a 'material' in the accounting sense.

'Services' covers a wide range of possible expense types, from charges by out-workers and sub-contractors to repairs, transportation, royalties, rents and professional fees. According to the company law, however, only those services which are 'similar' to raw materials and finished goods are to be shown in this category. This indicates that out-work and sub-contract work are meant, but it is still not clear, says the author, what the position would be where a finished article is sent to another firm for painting or polishing, and in the former case, whether the fact that the paint is supplied to the painting contractor would make any difference.

Two possible solutions are suggested. In the first, expenditures are analysed by type and only those types which resemble purchases of raw materials

and finished goods are grouped with them, irrespective of whether they belong to direct costs or overheads. In the second, a distinction is made between direct costs and overheads, and only those 'services' which are treated as direct costs are grouped with raw materials and finished goods.

It is also doubtful whether any revenues may be deducted from expenditures in order to show them 'net' or what treatment should be accorded to extraordinary purchases to separate them from normal operating expenses.

INDIA

Management Accounting Committee

A MANAGEMENT accounting committee has been appointed by the Government of India, under the chairmanship of Mr S. Prakash Chopra, B.A., B.COM., F.C.A., to advise the Government on matters relating to management accounting, with particular reference to the structure and the organization of typical accounting systems obtaining in the country and the extent to which modern accounting methods, particularly management accounting, can be introduced in industry, commerce and trade, both in the public and private sectors. The committee will also advise the Government on the best methods of disseminating knowledge of the subject and on the programme of introducing the technique in suitable units of industry, trade and commerce.

The committee met recently and took a number of decisions as a result of which some steps have been taken to expedite the progress in dissemination of knowledge of and the introduction of management accounting concepts and systems. The Commerce and Industry Ministry and the Department of Company Law Administration is proposing to hold a seminar on management accounting and management and participants will include representatives of the Government, public undertakings and privately owned companies. It is expected that the seminar will be well supported.

Planning and Taxation

INDIA has a population of over 400 million and on the success of raising its income per head fairly rapidly depends the country's economic stability over the next decade. The third five-year plan has now been published in outline and although more modest than either of the first two, it remains the largest exercise in economic planning outside the authoritarian regimes.

In the next five-year plan India plans to raise its national income by 5 per cent per annum and it expects to increase the proportion invested between the beginning and the end of the period from 11 to 14 per cent. This involves big increases both in the private and public investment sectors. Over the five years, savings are planned to rise from 8 to 11 per cent of the national income. Deficit financing is to be reduced and more revenue is planned from taxation. Income and corporation taxes are thought to

have reached the limit of their yield except for better administration which seems to point towards a need for innovations in indirect taxation, perhaps even to higher land taxes which would be exceedingly controversial and on which the outline plan is silent.

It is difficult to see how tax innovations are to be avoided in the third plan if inflation is to be controlled, the external account to be made viable in ten years and the standard of living raised. The scope for statistical error is enormous. For example, the second plan foresaw a population of 500 million in 1976; a more recent estimate puts it at 568 million. For India this population, as yet, means mouths to feed more than labour to employ and productivity to raise. Here is the biggest tax problem in the world.

GHANA

Tax Concessions

MAJOR tax concessions for pioneer industries are reflected in Ghana's development plans. Companies who engage in one of the pioneer industries are able to obtain tax concessions if the control and management of the company are exercised in the country.

Such businesses are granted a 'tax holiday' from the time they commence business until their initial investment is recovered. When this period is over, it is considered that they have created a new trade or business - but capital expenditure arising during the 'holiday' period on assets still used in its 'post-pioneer' business is treated as 'post-pioneer' expenditure for the purpose of granting capital allowances.

The rate of company tax for non-pioneer companies is 8s in the £, and companies incorporated outside Ghana pay an additional tax of 6d in the £ on income not retained in the country. There is also a withholding tax of 6d in the £ on dividends and interest paid to non-residents by companies incorporated in Ghana.

Concessions for smaller investors in the form of lower tax rates apply to companies incorporated and controlled in Ghana after March 31st, 1954, whose chargeable income and directors' fees do not exceed £10,000.

UNITED STATES

New President of Controllers' Institute

MR FRANK S. CAPON, C.A., treasurer and mdirector of Du Pont of Canada Ltd, Montreal, has been elected President of the Controllers' Institute of America for 1960-61 as from September 1st next.

Mr Capon, who is the first Canadian to hold the office, was born and educated in England and emigrated to Canada in 1930. After several years with the Montreal accounting firm of Riddell, Stead, Graham & Hutchison, he joined Canadian Industries Ltd in 1938 and became treasurer of the company in 1949. He was appointed secretary and treasurer of Du Pont of Canada in 1954 and was elected a director in 1957.

Weekly Notes

The Institute's Examinations

THERE were 3,684 candidates for the May 1960 examinations of The Institute of Chartered Accountants in England and Wales. Of 1,388 candidates for the Final examination, 642 (46.3 per cent) passed and 746 failed; in the November 1959 examinations 673 (48.2 per cent) passed and 723 failed. The First Certificate of Merit the Institute Prize, the W. B. Peat Medal and Prize and the Plender Prize for the paper on Taxation (equal with one other) were won by Mr Bryan Victor Carsberg, of London. The Second Certificate of Merit, the Walter Knox Scholarship, the Frederick Whinney Prize and the Plender Prizes for the papers on Taxation (equal with one other) and Advanced Accounting (Part I) were won by Mr Brian Tomlinson, of Manchester. The Third Certificate of Merit and the Plender Prizes for the papers on General Financial Knowledge, Cost and Management Accounting and English Law (Parts I and II) were won by Mr Donald Edward Midgley, of London.

In the Intermediate, there were 2,036 candidates, of whom 872 (42.3 per cent) passed and 1,164 failed; in the November 1959 examinations, 826 (46.3 per cent) passed and 960 failed. The First Certificate of Merit, the Institute Prize, the Frederick Whinney Prize and the Plender Prize for the paper on Book-keeping and Accounts (Partnership) were won by Mr William Leslie Daeche, of Brentwood. The Second Certificate of Merit and the Stephens Prize were won by Mr Roger John Hoare, of London, and the Third Certificate of Merit and the Plender Prize for the paper on Book-keeping and Accounts (Executorship) were won by Mr James Alexander Davey, also of London.

In the Preliminary examination, 260 candidates sat, of whom 65 (25 per cent) were successful and 195 failed. In the November examinations, 76 (38 per cent) passed and 124 failed.

A full list of successful candidates, together with a summary of results, appears elsewhere in this issue.

The Society's Examinations

THE three Chartered Institutes, in accordance with the schemes of integration with The Society of Incorporated Accountants (in voluntary liquidation), conducted the Final examination of the Society in May 1960. There were 127 successful candidates eligible for membership of the English Institute and sixteen successful candidates eligible for membership of the Irish Institute.

A list of successful candidates, together with a summary of the results, appears elsewhere in this issue.

Civil Servants' Higher Pay

THE Government has accepted the recommendation by the Standing Advisory Committee on the Pay of Higher Civil Servants. This committee was set up early in 1957 on the recommendation of the Royal Commission. Its chairman is Lord Coleraine and one of its members is Lord Latham, J.P., F.A.C.C.A.

The committee made specific recommendations for increases of between £280 and £400 a year for officers in the administrative and executive classes. This will increase the pay of grades in the salary range £2,000 to £3,800. It has also recommended that similar increases should be given to corresponding grades in the other Civil Servant classes.

The following table gives the present and recommended rates for the London area:

	£	£
Under-Secretary ..	3,800	4,100
Assistant Secretary ..	2,400-3,000	2,700-3,400
Top Executive Posts ..	3,000-3,800	3,450-4,100
Principal Executive Officer	2,700	3,050
Senior Chief Executive Officer	2,070-2,400	2,350-2,700

First Woman Holder of P. D. Leake Fellowship

MISS D. M. LIVOCK, M.A., F.C.A., who is Treasurer of St Anne's College, Oxford, and a member of the board of governors of the United Oxford Hospitals, has been appointed to a P. D. Leake Research Fellowship tenable in the University of Oxford for the two academic years 1960-62.

The first woman to hold the Fellowship, Miss Livock was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1927 and became a Fellow of the Institute in 1960. Her career has been mainly in the administration of hospital and charitable trusts. In 1927 she joined the staff of the counting house of Guy's Hospital and in 1937 was appointed accountant to the Radcliffe Infirmary, Oxford, and was responsible for the introduction of one of the first departmental costing systems to be used in a voluntary hospital.

In 1941 Miss Livock became accountant to the Nuffield Provincial Hospitals Trust, acting as accountant to the Trust, the Nuffield Foundation and the National Corporation for the Care of Old People, as well as to other organizations connected with these bodies, one of which was Crossways Trust with which the Chartered Accountants' Benevolent Association is connected. During this time the Nuffield Hospitals



Miss D. M. Livock

Trust and the King Edward's Hospital Fund were invited by the Minister of Health to experiment in hospital costing. Miss Livock conducted the research on behalf of the Trust and her report entitled 'An experiment in hospital costing' was published by the Trust.

After leaving the Nuffield Foundation, Miss Livock carried out further surveys and research projects in hospitals until in 1957 she became bursar, and then treasurer of St Anne's College, Oxford. In 1958 she was given the degree of Master of Arts by a decree of the University of Oxford and was elected a Fellow of the College.

As a P. D. Leake Research Fellow, Miss Livock intends to conduct research into 'the financial history of a town'. Her interest in the research project, which she will carry out on a part-time basis, arose from her work for the Nuffield Foundation in dealing with a study of the almshouses in Devonshire and Cambridgeshire. While engaged in this survey she became interested in the history of charity and especially of local charities, a subject often linked with the history of the finances of local government.

The Law Society's Memorandum to Jenkins Committee

THE memorandum of The Law Society to the Jenkins Committee on Company Law shows that lawyers and accountants are by no means at one in their views on the amendment of the Companies Act, 1948. In particular, solicitors do not appear to be so worried as accountants about the desirability and machinery of take-over bids. Pointing out that the practice of take-over bids is not a new one, the Society takes the view that they are ordinarily the result of normal commercial factors and, as a general proposition, operate in the national interest as they tend to promote the best utilization of resources. The Society explains the great number of take-over bids in recent years by the existence of many economic factors which have led to amalgamations. The Society has made some criticisms to the Board of Trade on the *Draft of the Licensed Dealers (Conduct of Business) Rules, 1960*, but is satisfied that, subject to those criticisms, the rules constitute a valuable code of conduct as to those take-over bids which fall within their terms. The Society also endorses the code of conduct laid down in the *Notes on Amalgamations of British Businesses* published by the Issuing Houses Association in October 1959.

So far as the incorporation of companies is concerned, The Law Society recommends a minimum of two members in all cases and advocates that unlimited personal liability if membership falls below the statutory minimum should be abolished. It recommends that the *ultra vires* doctrine in its application to limited companies should be abolished, sharing with The Institute of Directors the view that it may occasion hardship to third parties dealing with a company. Nevertheless, a company should be entitled to incorporate in its memorandum such

restrictions as regards its objects as it chooses, such restrictions operating only domestically as between the company and its members and directors.

The Society believes that Section 210 does not in all cases provide a sufficient protection for minorities, the onus of proving oppression placed on the applicant being heavy and the risk of failing to discharge it accordingly considerable. It therefore recommends that the section should be extended to afford protection to minority shareholders in private companies who neither receive reasonable dividends nor are able to sell their shares at a reasonable price.

Higher Private Investment

ACCORDING to the national income and expenditure figures published in the July issue of *Economic Trends*, gross fixed capital formation in the first quarter of this year increased by 3 per cent, seasonally adjusted, compared with the last quarter of 1959. Public investment was down slightly, but private investment increased sharply.

Total final expenditure (valued at 1954 prices) was about 3 per cent higher in the first quarter of 1960 than in the fourth quarter of 1959. This resulted from about equal proportional rises in all the main components of expenditure. Compared with a year earlier, consumers' expenditure was rising more sharply at the beginning of 1960 than a year earlier.

Company profits were up by 4 per cent between the last quarter of 1959 and the first quarter of 1960. One would, of course, expect the upward trend in gross capital investment to be accompanied, indeed somewhat preceded, by a rise in profits. The figures for the second quarter should be interesting when they become available. The Budget came at the beginning of this second quarter and a brake was applied to personal consumption. A divergent trend may now be developing as between consumer goods and capital goods expenditure; the second quarter's figures will give some measure of the divergence.

Flexible Taxation

AN article by Mr J. C. R. Dow called 'Fiscal policy and monetary policy as instruments of economic control' in the August issue of the *Westminster Bank Review* discusses the need to make part of the tax structure more flexible. He considers four alternatives.

The first of these would be to make income tax variable at quarterly intervals. He admits that if this were to be done new P.A.Y.E. tables would have to be issued for any quarter in which rates were changed and it would be desirable to separate income tax on company profits from personal income tax, since it might not be desirable to influence investment demand and consumption demand at the same time. His second suggestion is that the national insurance contributions should be varied, but here Mr Dow sees the disadvantage that variations in the rates would be cumbersome and the direct link with benefits, which is probably important, would be weakened.

His third suggestion is a new proportional tax to be levied on all pay packets, balanced by a corresponding reduction in existing indirect taxes. He thinks this would be a quick and effective weapon but also highly unpopular. A fourth possibility is a general sales tax and since this would involve a cumbersome method of collection, he thinks that an alternative might be to tax all firms on a small percentage of their 'value added'. This would be of turnover tax less the value of purchases from other concerns.

The effect of such changes would be to modify seriously the present tax structure and move it nearer to certain continental patterns, notably the French. Some of these continental tax structures are exceedingly ingenious but very complicated. Any changes along the lines which Mr Dow suggests would have to steer a middle course between creating effective weapons for economic control and not establishing ingenious but complex taxes which would create a disproportionate amount of trouble in interpretation and collection.

This is My Life . . .

by An Industrious Accountant

CHAPTER 37

WHEN all is said and done, the peak point in the accountant's year is undoubtedly the arrival of his annual holidays. True it is that there are some who affect to despise holidays and regard them as a necessary evil at best. I have one colleague in practice who has now acquired so many directorships that he can find no time for a vacation; he holds board meetings over lunch, has colleagues back to talk taxation problems in his study at home, and invariably spends his Saturday afternoons drafting reports. He's digging his grave with his pen. As he remarks dryly himself, *apropos* of meeting 'big guns', 'the bigger the gun, the greater the bore'.

Personally, after a hard year in a new job, I feel I've earned my three weeks and fully intend to enjoy them. There were some trying times when things went wrong, and my head was bloody and only just unbowed under the bludgeonings of chance. So now for two weeks under a summer sky in a seaside village far from business, followed by a week at a bridge tournament; revenue forecasts, legal tangles, cost analyses and tax computations can fade into forgetfulness.

But first the desk has to be cleared. As Pepys remarked wearily: 'Infinity of business, and indeed for these two or three days, I have not been without a great many cares'; the due delegation of *my* cares is vital. The last time that I was away for a week, all headaches were left piled up for my return; this time I determined on a change.

Calling in my Number Two, that able but unambitious departmental accountant, I loaded all my cares for the next three weeks on his surprised shoulders. Complete discretion to deal with everything; only a note of anything abnormal to be kept for my return; in effect, he had *carte blanche*.

The unorthodoxy of the step seemed to unsettle him momentarily. 'The rateable valuation of the new wing . . . the appointment of a senior ledger-clerk

. . . ' he queried worriedly. 'All yours,' I assured him cheerfully. 'The half-year's accounts will be in draft next week,' he pointed out, 'we haven't finished the accrual for the repairs to Block B and the spring bargain sales aren't allocated among the travellers!'

'All yours. I rely on your judgment quite happily.' I beamed on him and suddenly he straightened up and looked really relieved; the thought of having a free hand was registering as an attractive proposition. 'You don't want to vet the draft accounts at all?' he queried. 'Perish the thought,' I answered.

He departed with the jaunty air of a man with a shot in the arm, only promising to have reports of final profit results stacked for me next month. Responsibility and trust may nourish his latent ability to full growth; it's probably unworthy of me to have my fingers crossed lest he go too radical under their heady influence.

* * * * *

The chairman came in to wish me a good holiday and was fascinated by my new wall maps. I have two of them now, one for the whole country and one for our town, each profusely dotted with little coloured pins; they are a most successful gimmick. All my visitors—even the sceptical accountancy characters—are impressed. Personally, my only difficulty is that I've forgotten the significance of the various colours, unless I refer to my private chart! Last week I was showing our auditor a blue pin which, I explained, meant that the sales for the town designated average £3 per head of population annually (only afterwards I found out that it really signified that a new shirt factory traveller was based there). The auditor congratulated me on my finger-tip information system; fortunately, ignorance is bliss.

My chairman wanted to have my telephone number in case of emergency; he's the type who wrecks your holiday by keeping in touch. I was charmed to watch his face fall when I explained that my seaside bungalow had no phone. Less charmed when he asked me to ring him each week, just in case.

So, I finish up with three pages of memoranda and injunctions for my invaluable private secretary, to ensure that nothing can possibly be overlooked, by sending out reminders daily in my absence, and off to a well-earned rest.

ANGLO ORIENTAL PLANTATIONS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1959

	£	£		£
Estate and Crop Expenditure		594,562	Net Proceeds of Sales and Stocks	1,203,828
Malayan Export Duty and Cess		158,179	Cess Refunds	15,516
Replanting Expenditure less Grants received		54,919	Sundry Receipts	1,704
Depreciation of Fixed Assets		23,508		
Balance carried down		389,880		
		<u>£1,221,048</u>		<u>£1,221,048</u>
Directors' Fees and Commissions		13,826	Balance brought down	389,880
London Administration Expenditure		11,040	Income From Trade Investments (gross)	6,179
Audit Fees		527	Income from Other Investments (gross)	2,303
Profit before taxation, carried down		377,360	Interest on Deposits (gross)	3,848
		<u>£402,753</u>	Transfer and Registration fees	543
				<u>£402,753</u>
Taxation—			Profit before taxation brought down	377,360
Malayan Income Tax	128,867		Taxation overprovided in past years	8,442
United Kingdom Taxation:				
Profits Tax	927			
Income Tax	149,090			
	<u>278,884</u>			
Less: Relief for Malayan Income Tax	113,200			
		165,684		
Minority Interests in Profit after taxation		8,686		
Profit of the Group for the year after taxation carried down		211,432		
		<u>£385,802</u>		<u>£385,802</u>
Pre-acquisition Profit after tax, transferred to Capital Reserve		14,791	Profit of the Group for the year after taxation, brought down	211,432
General Reserve		7,500	Profit on Sale of Investments, etc.	6,368
Reserve for Future Income Tax		26,000		
Dividends—				
First Interim of 7½% on £712,463 8s. 0d.		32,729		
Second Interim of 20% on £811,093 18s. 0d.		99,359		
		<u>132,088</u>		
Unappropriated Profit per Balance Sheet—				
Holding Company		20,086		
Subsidiaries		17,335		
		<u>37,421</u>		
		<u>£217,800</u>		<u>£217,800</u>

NOTES ON THE ACCOUNTS FOR 1959.

GENERAL:

- The Malayan dollar has been converted at the exchange rate of 2/4d. throughout.
- Three of the subsidiaries have changed their accounting date from the 31st March to the 31st December. These Accounts include their profits for the whole calendar year 1959.

BALANCE SHEETS:

- During the year all the fixed assets of the group were re-valued by the Directors on a uniform basis. The net surplus on re-valuation has been placed to Capital Reserve.
- Stocks of Produce have been valued at net selling prices.
- The market value of the Trade Investments at the 31st December 1959 was materially above the book value at that date.
- The Capital Reserve in the Consolidated Balance Sheet is made up as follows:—

Surplus on re-valuation of Fixed Assets by the Directors	£580,285
Deduct	
Preliminary and Amalgamation Expenses	28,731
	<u>£551,554</u>
Add	
Capital Reserve on consolidation of the Accounts of the Subsidiaries	4,109
	<u>£555,663</u>

- Jugra Estate Limited owns a Palm Oil Factory jointly with Selangor Coconuts Limited. The amount included under Fixed Assets in the Consolidated Balance Sheet consists of the Company's ½ths share of the cost.

- A claim has been made against a Subsidiary Company in respect of an adjustment to the purchase price of certain assets purchased in 1958. The claim is disputed and has not yet been quantified, but an amount of approximately £20,000 has been indicated.

PROFIT AND LOSS ACCOUNT:

- Directors' fees and commissions include £12,195 applicable to Directors of the present Company, of which £3,945 was paid to them in their capacity as Directors of Subsidiaries.
- The second Interim Dividend was paid on 18,287 shares issued after the 31st December to former Amherst Shareholders.
- No allocation has been made, or is considered necessary, for the depreciation of the Estates which are properly maintained out of Revenue.
- Provision has been made for taxation on the profits shown by these accounts, except to the extent that in the case of the Parent Company the 1960 Malayan Income Tax Assessments may also be based on those profits. An amount of £26,000 has therefore been put to Reserve for future taxation, against part of this future liability.

The Reason

What prompted the board to make this statement with such emphasis and with the auditors' confirmation that all intangible assets have been written off? The answer may be seen in the practice which has grown up in some quarters in recent years of hire-purchase finance companies inviting the public to invest and issuing supporting statements of company assets.

It is important, in the view of the U.D.T. board, that no invitations should be made to the public accompanied by an assets figure – obviously intended to indicate size, importance and strength – which includes intangible assets.

Naturally, the board cannot go so far as to give specific instances where this procedure has been followed by companies advertising for funds, but they can, as they have now done through the medium of their own accounts, lift to greater prominence their principle that there should be no intangible element in the published figures of assets of hire-purchase finance companies – among which, of

course, the United Dominions Trust is one of the leading concerns.

This year's consolidated balance sheet totals £174 million, of which £110 million is in customers' accounts receivable, the greater part of this financing being through current, deposit and other accounts of over £101 million.

Revaluation

A REVALUATION of freehold property is written into the latest accounts of Cullen's Stores Ltd. This move was foreshadowed a year ago and the new figure, incorporated into the accounts as at February 29th last, comes out at £727,122 – an increase of £366,393 on the book figure. The revaluation was extended to take in recent purchases, the company during the course of the year having taken over the old-established City of London business of Barham & Marriage. Use is to be made of the increase in valuation to provide additional capital by the issue of debenture stock, secured on a proportion of the freehold properties.

CITY NOTES

THE Congo situation and home economic doubts have still failed to instil any noticeable feeling of apprehension in the stock-markets. It does appear, however, that the veneer of strength in the equity sections of the market has been sustained largely on a basis of blinkered optimism. The July rise in gold reserves, for example, was translated in some quarters as likely to lead to an early ending of the credit squeeze.

Engendered largely by international currency movements, however, the July gold gain cannot be seen in such terms and the autumn could well see a changed currency trend and renewed pressure on sterling. The current investment preoccupation with industrial equities regardless of price and prospects seems largely to ignore short-term doubts not the least of which is the current political round of moves concerning Britain and the European Common Market.

Preoccupation with equities has also meant that a number of fixed interest new issues, which on a yield and strength basis should have attracted support, have been left heavily with underwriters. Companies with such offers in mind must now think again before launching fixed interest stocks on to an unwilling market.

Within the equity orbit, however, there is an interesting development in the news of a wrong way traffic in unit trust sales in the past month. More units were bought back than were sold by unit trust managers. After two years and more of headlong expansion the unit trust movement has now slowed down considerably. New block offers of units fail to attract full support and the pitch of the market is such that managers are wary of making further offers.

RATES AND PRICES

Closing prices, Wednesday, August 10th, 1960

Tax Reserve Certificates: interest rate (29.6.60) 3½%

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

June 3	£4 11s 1.39d%	July 8	£5 13s 3.06d%
June 10	£4 12s 1.79d%	July 15	£5 10s 2.49d%
June 17	£4 13s 7.34d%	July 22	£5 9s 9.27d%
June 24	£5 13s 7.40d%	July 29	£5 10s 10.96d%
July 1	£5 13s 6.14d%	Aug. 5	£5 11s 7.17d%

Money Rates

Day to day	4½–5½%	Bank Bills	
7 days	5–5½%	2 months	5½–5½%
Fine Trade Bills		3 months	5½–5½%
3 months	6½–7%	4 months	5½–5½%
4 months	6½–7%	6 months	5½–5½%
6 months	6½–7½%		

Foreign Exchanges

New York	2.80½–81½	Frankfurt	11.71½–7
Montreal	2.72½–11	Milan	1743½–7
Amsterdam	10.95½–18	Oslo	20.02½–1
Brussels	140.79½–80½	Paris	13.76½–11
Copenhagen	19.35½–18	Zürich	12.11½–12

Gilt-edged

Consols 2½%	44½	Funding 4% 60–90	87½
Consols 4%	66½	Savings 2½% 64–67	82½
War Loan 3½%	60	Savings 3% 55–65	87½
Conversion 3½%	59½	Savings 3% 60–70	78xd
Conversion 3½% 1969	83½	Savings 3% 65–75	70½xd
Exchequer 5½% 1966	97½xd	Treasury 2½%	43½
Funding 3% 66–68	81½	Treasury 3½% 77–80	71½
Funding 3% 59–69	81½	Treasury 3½% 79–81	70½xd
Funding 3½% 99–04	64	Victory 4%	91½xd

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Practitioners and the Revenue

SIR, - I am certain that the vast majority of average practitioners have as good cause for irritation at the present-day attitude of Inspectors of Taxes in relation to small businesses as have the 'Seventeen Provincial Accountants' whose letter appeared in your issue of July 16th. I could give details of some rather objectionable examples taken perhaps from the same source but, as pointed out by Mr Bartfield (July 23rd issue) and Mr Evans (July 30th), we should first look in the mirror.

Six years ago, a quite long-established chartered accountants' practice in a Lancashire town was offered for sale to me. The connection included 241 cases involving the annual preparation and/or audit of accounts for which the average fee worked out at £15 10s. Of these, the annual fee was actually under £10 in no less than 150 cases. I feel free to mention this appalling state of affairs since the person concerned is now dead and the practice broken up, and to inquire what view would be taken by an independent tribunal as to the efficiency of work carried out in such circumstances.

During the period between the wars, inquiries by Inspectors of Taxes seemed mainly to be directed towards the admissibility or otherwise of certain classes of expenditure, but I venture to suggest that their inquiries today are influenced mainly by knowledge of the existence of a vast amount of circulating cash in the hands of small traders which has never been brought into credit in any books. We all hope that our own individual clients are not blameworthy in this respect, but Inspectors of Taxes know in most cases the amount of the fees charged for accountancy and taxation work, and it is difficult to see how much reliance they can place upon thousands and thousands of accounts submitted throughout the country where the absence of any detailed work is so clearly indicated.

The Institute could help by the establishment or recommendation of a basic minimum scale of fees, but the odds against such a happening must be astronomical.

Yours faithfully,
DUDLEY WHITNALL.

Liverpool.

SIR, - I carry on practice in a suburb of London. I have occasionally had trifling and time-wasting queries, but these can usually be diagnosed as having been written by a young thing with a bee in her bonnet and signed by an Inspector. There must be

some learners, and some humans, in the Revenue.

I agree that the state of affairs in the provinces must be much worse. Whether this is the fault of provincial accountants or provincial Inspectors I could not say. I have had clients who moved away from London, and matters that had been settled and agreed for years past were pulled to pieces and re-examined causing an enormous amount of work, but negligible difference in the tax liability. I have also acted for a client coming from the north of England. He was in a strong position over a matter of argument, but decided to give way when the Inspector said that he would accept our figures if we gave way, but if we did not he would demand further analysis, vouchers for all payments, and the reopening of matters already agreed. This threatening attitude has not been found around London.

The Inspectors whom I have dealt with locally have been always reasonable and helpful. They have never put cases down for hearing unless there has been excessive and unnecessary delay by the clients.

As an example of what can be done by keeping up to date, I mention my own affairs. I have been in practice for twenty-four years. My own accounts are made up to June 30th and submitted a few days afterwards. In the period mentioned the Inspector has sent his agreement to my computations eighteen times in July, five times in August, and once (accompanied by an apology for the delay) in the first week of September. Perhaps this constitutes a record?

Yours faithfully,
B. G. (F.C.A.).

SIR, - The recent letters, especially that of Mr Goodfellow (August 6th issue), seem to exhibit a certain delusion of grandeur among accountants. We now complain that Inspectors of Taxes dare to put our cases upon appeal, disregard our certificates, think that our clients keep incomplete records and ask for a make up of drawings.

Mr Goodfellow's reasoning appears to be that if the Inspector wants co-operation from the accountant he had better put his cards on the table although the accountant should have the Inspector's co-operation, while he keeps the trump card - the make up of drawings - up his sleeve. I wonder why he does not go the whole hog and just send the Inspector the figure of net profit?

I think that the accountant has become too inclined to consider himself the only one capable of solving the problems of small traders' accounts and of understanding the bit of income tax law necessary to agree a computation. Surrounded by his mystified clients and bemused by his own magic he must

'Like Cato give his little senate laws

And sit attentive to his own applause'.

In the end he can no longer bear the chill wind of reality especially if it blows from an Inspector of Taxes' office.

Will we never learn the lesson of Section 29, Income Tax Act, 1952, and its aftermath, that accounts pre-

pared for small traders on incomplete record principles are of limited use? In consequence accountants are of limited use to Inspectors of Taxes whose proper function is to assess correctly and not to agree accounts nor to please accountants.

When we have devised a system that shows the true profits, when we issue certificates that are worth reading, when we can produce reliable accounts upon time, then will be the time to talk of complaints and irritation against the Revenue. Until then is it beyond our wit to put our own house in order?

Yours faithfully,
ALEX HARRISON.

Bedworth.

Stock and Share Certificates

SIR, — On a number of occasions recently I have had to write to the registrars or secretaries of public

companies in connection with changes of address of stockholders. I naturally referred to the certificates to ascertain the addresses to which the changes should be notified and was surprised to find in nearly 50 per cent of the cases involved that neither the address of the registrar nor of the registered office was shown on the certificates. In one instance the registrar was named as 'Lloyds Bank' and it was only when I referred to the *Stock Exchange Year Book* that I found that the bank address was an obscure one on the south coast.

In fairness to and in consideration for small stockholders, few of whom can be expected to have ready access to the *Stock Exchange Year Book*, I would ask all public companies to show the full address of the registrar's office on stock and share certificates.

Yours faithfully,
P. W. G.

Taxation Case

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

Ackland & Pratten Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)
July 25th, 1960

(Before Mr Justice CROSS)

Profits tax — Capitalization — Bonus shares — Reconstruction — Whether designed to avoid or reduce liability — Finance Act, 1937, Sections 19, 20 (2) — Finance Act, 1947, Sections 30, 34, 35 and 36 — Finance Act, 1951, Sections 31, 32 — Finance Act, 1958, Section 25.

On May 24th, 1957, the Court of Appeal gave judgment in *Commissioners of Inland Revenue v. Pollock & Peel Ltd*. The appellant company carried on business as a stationer, and until July 24th, 1957, its issued capital consisted of 10,000 preference shares of £1 each, and 36,002 ordinary shares of £1 each. The company had retained a substantial part of its profits, and it had thereby obtained non-distribution relief. On July 24th, 1957, the share capital was increased by 190,000 ordinary shares of £1 each and £198,011 standing to the credit of the profit and loss account was capitalized and applied in paying up in full 198,011 unissued ordinary shares.

On October 14th, 1957, instructions were issued to Inspectors of Taxes that the Inland Revenue would not appeal against the decision in *Commissioners of Inland Revenue v. Pollock & Peel Ltd*, and that the decision of the Court of Appeal in that case should be applied in appropriate cases. There was no finding that this instruction had come to the knowledge of the appellant company. On October 21st, 1957, the shares referred to in the resolutions of July 24th, 1957, were

duly issued and allotted, and on November 27th, 1957, the company went into voluntary liquidation and there was a reconstruction, the shareholders in the new company being substantially the same as those in the old company. Certain Government securities and bank balances, the total value of which was about £161,517, were not transferred to the new company; and out of this sum about £10,721 was reserved for taxation, so that £150,795 odd was available for distribution by the liquidator, and this sum, with the value of the shares in the new company, was less than the share capital of the old company.

On December 3rd, 1957, both companies gave notice to the Inland Revenue that they elected that Section 36 (4) of the Finance Act, 1947, should apply to the agreement of November 28th, 1957, and the result of this election would be that the shares in the new company distributed to the shareholders of the old company would not count as a distribution for profits tax purposes. On January 17th, 1958, the accountants of the old company wrote to the Inspector of Taxes setting out the facts of the reconstruction and adding that the liquidator had distributed 5s in the pound, and that the remaining assets would not be sufficient to repay the capital in full. The letter presumed that under the decision in the case of *Pollock & Peel Ltd* no distribution charge would be payable.

On August 15th, 1958, a direction under Section 32 of the Finance Act, 1951, was made, and it directed that the liability of the company to profits tax for the chargeable accounting period of November 28th, 1957, should be computed as if, for the purposes of Section 35 (1) (c) of the Finance Act, 1947, the paid-up ordinary share capital of the company was at all relevant times £36,002. The company appealed against the direction and no evidence was given on behalf of the company. The Special Commissioners decided that the direction was valid.

Held: the Special Commissioners' decision was correct.

within four months of January 1st, 1960, the subscription then due and payable by him, so as to render himself liable to exclusion or suspension from membership.

In every case the Committee found the formal complaint proved.

The Committee ordered that each of the twenty-three members whose names are set out below be excluded from membership of the Institute:

John Edgar Beck, A.C.A., 67 Balmore Drive, Caversham, Reading, Berks.

Herbert Carrington, F.C.A., Bucareli, 128-C-8, Mexico, D.F., Mexico.

Margerye Ruby Schofield Clayton (Mrs), F.C.A., Trevarth, Flushing, near Falmouth, Cornwall.

John Lovat Fraser, F.C.A., Waundurgi, Whitland, Carmarthenshire.

Frederick Michael Furber, A.S.A.A., c/o Causton, Rouse & Co, P.O. Box 622, Ndola, Northern Rhodesia.

Mervyn Goldberg, A.S.A.A., 41 Ferncroft Avenue, Hampstead, London, NW3.

Donald Ian Grant, A.C.A., c/o Sheaffer Pen International, Rua Barra do Tibagi 609, Caixa Postal 13816, São Paulo.

William Gretton, F.C.A., 1 Fairview Close, Broadstone, Dorset.

Sangvian Indaravijaya, B.A., A.C.A., c/o School of Commerce and Accountancy, University of Thammasat, Bangkok, Thailand.

Walter John Keast, F.S.A.A., 6 Pennsylvania Close, Exeter, Devon.

Francis Walter Lait, F.C.A., 48 Bromstone Road, Broadstairs, Kent.

Paul Lazzari, F.C.A., 22 Treherne Road, Newcastle upon Tyne, 2.

Stanley Walliker Park, F.C.A., 141 Broadway, New York, 6, U.S.A.

George Parkinson, F.C.A., 12 The Meadway, Syston, Leicester.

George Alexander Roberts, F.C.A., 4 Waverley Road, Enfield, Middlesex.

John Mair Rolph, A.C.A., 11 Woodholme Road, Avondale, Salisbury, Southern Rhodesia.

John Herbert Rout, F.C.A., 165 Newmarket Road, Norwich.

Vishnu Sahai, F.S.A.A., 36/G Connaught Circus, New Delhi, India.

Manoranjan Ratilal Shroff, B.COM., A.C.A., c/o M. R. Schroff & Co, 16 Apollo Street, Fort, Bombay, 1, India.

Donald Ferguson Smith, A.C.A., 108 Moss Lane, Sale, Cheshire.

Robert William Sowerby, F.C.A., 8 Sudbury Court Road, Harrow, Middlesex.

Gilbert Taylor, F.C.A., 100 King's Drive, Bristol, 7.

Frederick James Williams, F.S.A.A., County Treasurer, Somerset County Council, County Hall, Taunton.

The Committee further ordered that four other members be excluded from membership or, if the remittance the subject of the formal complaint be received on or before July 31st, 1960, that the member concerned be admonished and that in the event of admonishment there existed special circumstances which justified the omission of the member's name from the publication of the Finding and Decision. Two of the members concerned tendered the amount due within the period allowed and were admonished. The following two members were excluded from membership on August 2nd, 1960:

Prithwish Chandra DasGupta, M.A., LL.B., F.C.A., c/o Lloyds Bank Ltd, 41 Chowringhee, Calcutta, 16, India.

John Digby Forrester, A.C.A., c/o Perini (Canada) Ltd, 49 Jackes Avenue, Toronto, Ontario, Canada.

In the case of the remaining 143 members, whose full subscriptions had all been tendered at the date of the hearing, the committee decided that fifty-one be reprimanded and eighty admonished and that no action be taken against twelve; the committee considered that there existed in 136 cases special circumstances which justified the omission of the names of the members from the publication of the Findings and Decisions. The following seven members were reprimanded:

George Stephen Halsall, F.C.A., 176 Widnes Road, Widnes, Lancs.

Michael George Hocknell, A.C.A., 240 Munster Road, Fulham, London, SW6.

Robert Percival Palmer, F.C.A., Chesterton Priory, Peterborough, Northants.

Donald Henry Pexton, F.C.A., 15 Golden Square, London, W1.

Frank Norris Pinder, F.C.A., Cecil Court, Fawcett Street, London, SW10.

Alan Samuel Spiro, A.C.A., 7362 Ostell Crescent Montreal, 9, Canada.

Henri William Noble Vicary, F.C.A., 38 Stanmore Road, Edgbaston, Birmingham, 16.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Administrative Vitality: the conflict with bureaucracy; by M. E. Dimock. 1960. (Routledge & Kegan Paul, 25s.)
Budgetary Control, Standard Costing and Factory Administration; by S. R. Cave, F.C.A.: second edition. 1960. (Gee, presented, 26s.)
Business Mergers and Take-over Bids; by R. W. Moon, F.C.A.: second edition. 1960. (Gee, presented, 25s.)
Clerical Salaries Analysis 1960. (Institute of Office Management.) 1960. (I. of O.M., 50s.)
Complete Valuation Practice; by N. E. Mustoe, H. B. Eve and B. Anstey: fifth edition. 1960. (Estates Gazette, 52s 6d.)
Cost Accounting and Costing Methods; by H. J. Wheldon: tenth edition; by L. W. J. Owler and J. L. Brown. 1960. (Macdonald & Evans, 26s.)

A Costing System for Laundries. (Institute of British Launderers.) 1960. (I. of B.L., 35s.)
The Economic Background to Investment; by H. B. Rose. Cambridge. 1960. (C.U.P., 40s.)
The Economics of Shipbuilding in the United Kingdom; by J. R. Parkinson. Cambridge. 1960. (C.U.P., 40s.)
An Economic Survey of the Sisal Industry of Tanganyika; by C. W. Guillebaud. Welwyn, Herts. 1960. (Nisbet, 15s.)
European Free Trade Association: compendium for the use of exporters. (Board of Trade.) 1960. (H.M.S.O., 7s 6d.)
Financial Administration in Local Government; by A. H. Marshall. 1960. (George Allen & Unwin, 32s.)
Guide to Commonwealth Income Tax: ninth edition; by

- J. A. L. Gunn and M. Maas. Sydney. 1959. (Butterworth, 47s 6d.)
 Housing Finance; edited by S. W. Magnus and L. Tovell, A.S.A.A. 1960. (Knight, 50s.)
 Inflation and Society; by G. Hutton. 1960. (George Allen & Unwin, 15s.)
 Insurance; by H. E. Raynes. 1960. (O.U.P., 8s 6d.)
 Introduction to Economics; by A. Cairncross: third edition. 1960. (Butterworth, 20s.)
 The Law of Dilapidations . . .; by B. W. Adkin: fifth edition. 1960. (Estates Gazette, 37s 6d.)
 The Law of Stamp Duties; by E. N. Alpe: twenty-fifth edition; by P. E. Whitworth and J. Mackenzie. 1960. (Jordan, 63s.)
 Memorandum on the Setting Up of a Corporate Organization in Brazil by a United Kingdom Registered Company . . .; by J. S. Carolin, J. M. P. Neto and T. G. Buckridge. 1960. (Bank of London and South America, presented by J. S. Carolin, F.C.A.)
 Money at Work; edited by M. Grundy: second edition. 1960. (Sweet & Maxwell, 18s 6d.)
 An Outline of Planning Law; by D. Heap: third edition. 1960. (Sweet & Maxwell, 25s.)
 Pension Schemes and Retirement Benefits; by G. A. Hosking: second edition. 1960. (Sweet & Maxwell, 50s.)
 Periods of Limitation . . .; by J. F. Josling: second edition. 1960. (Solicitors' Law Stationery, 12s 6d.)
 Pooling of Local Authority Loans: a research study; by W. W. Ayling and J. A. Neale. 1960. (Institute of Municipal Treasurers and Accountants, 25s.)
 Port Operation and Administration; by A. H. J. Bown and C. A. Dove: second edition; by E. S. Tooth. 1960. (Chapman & Hall, 45s.)
 The Principles of Audit Surveillance; by H. Cardwell. Princeton. 1960. (Van Nostrand, 67s 6d.)
 Les Prix de Revient Industriels et Commerciaux. 1959. (Compagnie Nationale des Experts Comptables.) Paris. 1960. (C.N. des E.C., presented.)
 Public Finance in Theory and Practice; by A. R. Prest. 1960. (Weidenfeld & Nicolson, 45s.)
 Rating Valuation Practice; by P. R. Bean and A. Lockwood: fifth edition. 1960. (Stevens, 55s.)
 The Technique of Delegating; by D. A. Laird and Eleanor C. Laird. New York. 1957. (McGraw-Hill, 31s.)
 U.S. Master Tax Guide. (Commerce Clearing House.) New York. 1960. (C.C.H., 25s.)

Notes and Notices

PROFESSIONAL NOTICES

MESSRS ANNAN, IMPEY, MORRISH & Co, Chartered Accountants, of 21 Ironmonger Lane, London, EC2, and 48 Calthorpe Road, Edgbaston, Birmingham 15, announce that as from July 1st, 1960, they are associated with MESSRS ANNAN, DEXTER & Co, London, MESSRS DEARDEN, GILLIAT & Co, Manchester and London, MESSRS IMPEY, CUDWORTH & Co, Birmingham and London, MESSRS MELLORS, BASDEN & MELLORS, Nottingham, MESSRS MORRISH, WALTERS & Co, London, MESSRS THORNTON BAKER & Co, Leicester, Oxford, London and elsewhere; the following have been admitted into partnership: Mr K. A. BUXTON, F.C.A., Mr B. K. FITTON, A.C.A., Mr G. W. JACKSON, F.C.A., Mr R. H. LANGDON-DAVIES, F.C.A., Mr C. R. RIDDINGTON, F.C.A., Mr H. T. SCOTHORNE, F.C.A. Branch offices have been opened at Shell House, London Road, Leicester; 14 Lloyd Street, Albert Square, Manchester, 2; 1 King John's Chambers, Bridlesmith Gate, Nottingham; 8 King Edward Street, Oxford.

MESSRS LEWIS, SHAW & Co, Chartered Accountants, of St Stephen's Chambers, Telegraph Street, London, EC2, announce that as from August 1st, 1960, they have taken into partnership Mr ERNEST JAMES NICHOLLS, F.C.A.

Appointments

Mr Leslie Prince, M.A., F.C.A., has been appointed a director of Majestic Theatres Corporation Ltd.

Mr R. A. Penny, F.C.A., has been appointed a Justice of the Peace for the County of Middlesex.

Mr M. L. Wells, F.C.A., and Mr N. G. Lancaster, M.B.E., F.C.A., have been appointed additional directors of J. A. & P. Holland Ltd.

Mr S. H. Robinson, B.COM., F.C.A., has been appointed an alternate director of Ariston Gold Mines (1929) Ltd.

Mr F. G. Woodhead, A.C.A., has been appointed a director of Octavius Atkinson & Sons Ltd.

Mr G. H. R. Edmunds, F.S.A.A., has been appointed a director of the Standard Bank of South Africa.

OBITUARY

Maurice Charles Spencer, F.C.A.

It is with regret that we record the death on July 30th, at his home in Corsham, Wiltshire, of Mr Maurice Charles Spencer, F.C.A., who served with the London firm of Price Waterhouse & Co for forty-six years, thirty-one of them as a partner.

Educated at Bath College, he worked for a few years in the accounts department in London of the Buenos Aires & Pacific Railway before becoming articled with Messrs Miall, Wilkins, Randall & Co. He gained first place in both the Intermediate and the Final examination of The Institute of Chartered Accountants in England and Wales and was admitted to membership of the Institute in 1903. In that year he joined the London staff of Price Waterhouse & Co. He was taken into partnership in the firm on July 1st, 1918, was admitted to fellowship of the Institute in 1923 and remained fully active until his retirement from the firm in June 1949.

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Mr Spencer was one of the architects of his firm's development in this country and overseas during the years since the First World War. He was a keen traveller and in the course of his professional work visited many countries. Early in 1916 he was sent to Holland in charge of work on behalf of the War Trade Department. The connections which he established there led to the opening in Rotterdam in 1919 of the first European office of his firm and in the course of time to the development of a European firm practising throughout the Continent. Latterly he was the senior representative of the London firm in Price Waterhouse & Co (international firm).

'M. C. S.', as he was known with affection by the very many who over the years worked for him and with him, was a great character and the kindest of men. The service which he gave without stint to his firm and to its clients set an example which few could emulate.

Henry Vincent Wood, J.P., F.C.A.

It is with regret that we record the death at the age of 76 of Mr Henry Vincent Wood, J.P., F.C.A., who, until his retirement twelve years ago, was senior partner in the firm of H. V. Wood & Co, Chartered Accountants, of Huddersfield.

Mr Wood was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1908 and was elected to Fellowship in 1919. Secretary of the Huddersfield Stock Exchange until 1953 - an office he had held for forty years - Mr Wood had long-standing connections with the business and professional life of Huddersfield and had held directorships in a number of companies.

He took a particular interest in the Huddersfield Cricket and Athletic Club and in 1940 was elected president. A deacon of the Hillhouse Congregational Church and president of Huddersfield and District Congregational Council in 1939, he was a life governor of the Yorkshire United College, Bradford, and was a prominent Freemason. Mr Wood had also held office with the Huddersfield Liberal Association and had been vice-president of the Yorkshire Liberal Federation.

Samuel Arthur Mills, F.C.A.

We regret to announce the death of Mr Samuel Arthur Mills, F.C.A. Admitted an Associate of the Institute in 1925, Mr Mills became a Fellow this year. He joined the Friends' Provident and Century Life Office in 1937 and was appointed deputy secretary in 1946 and secretary in 1952.

INQUIRY INTO SEVEN COMPANIES

Mr Duncan McKellar, O.B.E., C.A., a partner in the London firm of Messrs Thomson McLintock & Co, Chartered Accountants, and Mr Malcolm John Morris,

Q.C., have been appointed by the Board of Trade, under Section 165 (b) of the Companies Act, 1948, as inspectors to investigate the affairs of Selangor United Rubber Estates Ltd, Kali Glagah Rubber Co Ltd, and Moccasin Shoemakers Ltd.

The latest announcement brings the total number of companies to be investigated by Mr McKellar and Mr Morris since last May to seven. The companies named earlier were Val d'Or Rubber Co Ltd, Tremelbye (Selangor) Rubber Co Ltd, The Anglo-Sumatra Rubber Co Ltd, and Mambau (F.M.S.) Rubber Co Ltd.

EXTRA-STATUTORY CONCESSIONS

The Inland Revenue has issued a revised pamphlet setting out details of the extra-statutory concessions in operation at December 31st, 1959. Copies of the pamphlet (No. 500) are available from local tax offices.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Students' Residential Course

The seventh autumn residential course for student members of The Chartered Accountant Students' Society of London will be held at Balliol and Jesus Colleges, Oxford, from Thursday, September 15th, to Sunday, September 18th.

Although open to all student members of the Society, the course, in the main, is intended for those members of the Society who have taken the Intermediate examination. Over 200 students have applied to attend, but there is still accommodation available for late applicants. The programme will be as follows:

Thursday afternoon: 'From auditing to management accounting', by Mr R. A. Myers, B.A., A.C.A., chief accountant, J. Langham-Thompson Group.

Friday: 'The future of international trade', by The Hon. Christopher W. Layton, of the editorial staff of 'The Economist'. 'Raising business capital', by Mr D. L. Murison, M.B.E., director, Helbert, Wagg & Co Ltd.

Saturday: 'Recent developments in company law', by Mr F. R. G. Lowe, B.A., LL.B., Barrister-at-law.

Sunday: Service in Balliol College Chapel.

'How the Inland Revenue department administers income tax', by Mr S. H. H. Hildersley, Senior Principal Inspector of Taxes.

The lectures will be followed by discussion in groups and a final discussion with the lecturer who will deal with points raised.

Mr W. E. Parker, C.B.E., F.C.A., President of the Society, will preside at dinner on consecutive evenings at the two colleges, and the President of The Institute of Chartered Accountants in England and Wales, Mr S. J. Pears, F.C.A., and the Vice-President, Mr P. F. Granger, F.C.A., who will be attending the Institute's Summer Course at Christ Church, have promised to visit the course.

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Results of Examinations held in May 1960

FINAL EXAMINATION

Held on May 31st, June 1st, 2nd and 3rd, 1960

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the W. B. Peat Medal and Prize and the Plender Prize for the paper on Taxation (equal with one other)

Carsberg, Bryan Victor (C. A. Chapman), London.

Second Certificate of Merit, the Walter Knox Scholarship, the Frederick Whinney Prize and the Plender Prizes for the papers on Taxation (equal with one other) and Advanced Accounting (Part I)

Tomlinson, Brian (L. R. Wilkinson), Manchester.

Third Certificate of Merit and the Plender Prizes for the papers on General Financial Knowledge, Cost and Management Accounting and English Law (Parts I and II)

Midgley, Donald Edward (E. J. Rogers), London.

Fourth Certificate of Merit

Willings, Malcolm Robert Thomson (E. Caldwell), London.

Fifth Certificate of Merit

Slowe, Robert Leon (H. Arbeid), London.

Sixth Certificate of Merit

Levy, Edward Geoffrey (D. F. L. Cooke), London.

Seventh Certificate of Merit, the William Quilter Prize and the Plender Prize for the paper on Auditing

Blackburn, Michael (H. Robinson), Norwich.

Eighth Certificate of Merit

Collier, Philip John (G. M. Collier), Enfield.
Treadgold, Sydney William (H. E. Williams), Oxford.

Tenth Certificate of Merit

Donnelly, Francis (B. Entwisle), Bolton.

Eleventh Certificate of Merit

Cooch, Michael John Anthony (N. G. Bascombe), Bristol.
Freeman, Ivor Walter (D. D. Mathieson), London.

Thirteenth Certificate of Merit

De-Zaporowicz, Peter Anthony (J. D. Clark), London.
Holmes, William Lane (E. W. Watts), London.

Fifteenth Certificate of Merit and the Plender Prize for the paper on Advanced Accounting (Part II)

Lewis, Neville Frank (J. Green), London.

Full List of Names of Successful Candidates

(in alphabetical order)

Abbott, B. (W. Wild), Manchester.
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Agates, E. J. (B. Place), East Grinstead.
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Allan, D. (B. I. Pocock), Eastbourne.
Allen, A. R. (P. S. James), Sidmouth.
Allen, D. W. (G. R. Postlethwaite), Doncaster.
Allen, W. G. (W. J. Gilbert), London.
Allford, T. G. (E. L. Davies), London.
Allott, P. W. (L. Ettling), Sheffield.
Anderson, G. C. de G. (J. W. G. Cocke), London.
Anderson, M. A. (A. M. M. Burdon-Cooper), London.
Arnold, C. (L. H. Andrews), Horsham.
Aspinwall, R. S. (C. H. March), Cardiff.
Atalla, M. S. A. H. (G. G. Thomas), Swansea.
Atkinson, J. (R. Stakes), Batley.
Atkinson, J. D. (R. L. Crowther), Huddersfield.
Aubrey, H. H. J. (J. Bennett), Ross-on-Wye.
Azfar, S. (R. R. Nash), London.

Backhouse, B. J. (A. Smith), Manchester.
Bailey, J. F. M. P. (J. S. Hillyer), London.
Baker, A. H. (W. E. Johnson), London.

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Ball, D. E. (E. E. Laddiman), Wellington.
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Barlow, R. C. (A. C. J. York), Bournemouth.
Barnett, A. S. (P. Mitchell), London.
Barnhurst, G. J. (E. R. Nicholson), London.
Baron, I. W. H. (M. B. Hancock), Birmingham.
Barry, T. D. (M. W. H. Lancaster), London.
Bayne, M. D. (W. E. Carnelley), London.
Baynes, B. S. (G. Connelly), London.
Bean, C. E. H. (D. W. Carter), Kingston upon Thames.
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* See also Certificate of Merit above.

(S) Service in accordance with the regulations of the former Society of Incorporated Accountants.

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 Greenwood, C. B. (M. Farmer), London.
 Grey, D. W. (A. Collins), Bournemouth.
 Grosz, G. (P. H. Champness), London.
 Gruhn, E. P. J. (A. E. H. Bernard), London.
- Haddleton, M. (G. Ford), Bournemouth.
 Hadler, J. K. (K. S. Moore), London.
 Hailes, S. (A. F. J. Kearns), Manchester.
 Hall, G. N. (G. C. B. Gidley-Kitchin), London.
 Hall, J. D. (I. C. Storey), South Shields.
 Hall, R. C. (S), London.
 Hamilton, J. D. E. (A. E. Bayliss), London.
 Hammond, E. G. (E. W. Hammond), Darlington.
 Hancock, J. W. (F. L. K. Crowe), Weston-super-Mare.
 Hanson, J. (H. Riley), Halifax.
 Harris, G. R. (E. C. Smith), Manchester.
 Harrison, D. G. (A. M. Baker), Wolverhampton.
 Harrison, G. A. (J. Mearns), London.
 Harrison, T. F. G. (R. A. Duthie), Carlisle.
 Hartley, F. (N. Smith), Hebden Bridge.
 Haste, D. M. (W. A. Rawlinson), Bradford.
 Hawkes, R. G. (B. R. Pollott), London.
 Hawkins, B. E. (R. S. Sprange), Sutton.
 Hawkins, K. R. (D. R. P. Foot), London.
 Hayman, J. H. (A. J. Knights), London.
 Hazard, G. A. (G. Blakelock), Sunderland.
 Heaford, J. A. (S. V. Turner), Manchester.
 Heffron, J. J. (A. H. Smalley), Coventry.
 Henderson, J. L. H. (S), Chester.
 Henley, M. D. R. (R. M. Evans), Birmingham.
 Herring, D. (E. J. Wright), Manchester.
 Heymann, L. (J. C. Durnin), London.
 Hicks, A. W. (N. Green), Sudbury.
 Higgins, A. C. E. (A. P. W. Simon), London.
 Hill, S. (R. Barnes), Manchester.
 Hill-Allen, G. W. (S. A. Gates), London.
 Hocknell, B. T. (W. Young), London.
 Hoda, K. K. (O. B. T. Bennett), Oxford.
 Hodges, J. T. C. (H. P. Green), London.
 Hohler, R. T. A. (H. S. Rose), London.
 Holdich, T. A. W. (A. Macdonald), Hull.
 Holman, D. M. (R. T. Smith), Rhyl.
 Holman, H. A. (J. W. Perman), London.
 *Holmes, W. L. (E. W. Watts), London.
 Hookins, P. McN. (L. D. Morse), London.
 Hoole, R. G. (D. H. Thomas), London.
 Horn, T. J. (A. E. Whitcomb), London.
 Hoskin, S. (A. E. Mitchell), Chesterfield.
 Howard, G. (H. Anderson), Leeds.
 Howarth, G. W. (W. Bell), Bolton.
 Howells, D. G. (J. M. Dinwoodie), Newbury.
 Hoy, M. R. (S. V. Austin), London.
 Huggett, D. W. C. (M. J. Goldburgh), London.
 Hughes, M. J. (C. G. Jolliffe), Newport, Mon.
- Hughes, N. G. (J. Thornton), Oxford.
 Humphrey, B. C. (T. S. Wilson), Cardigan.
 Hunt, R. M. (D. E. Claypole White), Bedford.
- Ingham J. (T. Albinson), Ashton-under-Lyne.
 Ingledew, J. F. (E. R. Norman), London.
 Isbell, G. J. R. (G. A. Riches), Norwich.
- Jadavjee, A. A. (S. E. Newman), London.
 Jaffery, M. R. (W. G. James), Cardiff.
 Jameson, I. (A. G. L. Puckle), London.
 Jeffay, C. B. (R. Goorney), Blackpool.
 Jenkins, R. W. (R. C. Munday), London.
 Jewitt, D. (N. L. Smith), Bradford.
 Johnston, J. M. (E. G. Wilcox), Birmingham.
 Jones, K. A. (P. E. Bower), Manchester.
 Jones, M. C. (R. M. Bradburn), Liverpool.
 Jordan, M. J. (K. C. Makinson), Burton-on-Trent.
 Jordan, R. M. (J. H. Cox), Birmingham.
 Jukes, R. W. S. (R. G. Leach), London.
- Keane, M. (K. A. Whiting), London.
 Kemp, T. G. (G. H. Dodsworth), York.
 Khan, M. A. (A. Feldman), London.
 Khan, M. R. (W. I. B. Trott), London.
 Knowles, D. W. (F. C. Darwell), Blackpool.
 Koram, E. O. (J. O. Magee), London.
- Lakoufis, N. N. (S. T. Farmiloe), Birmingham.
 Lamb, M. F. (H. L. Layton), London.
 Lambert, P. L. (M. H. Leese), Manchester.
 Lancaster, R. F. (S. Woodyer), Liverpool.
 Lane, K. A. (F. C. A. Leadsam), Birmingham.
 Lane, T. W. (G. W. Welch), London.
 Langford, R. W. (H. G. Dunkley), London.
 Law, B. (J. Lamb), Newcastle upon Tyne.
 Lawrence, D. J. (S. J. Baker), London.
 Laycock, M. (Miss), (N. Shaw), Dewsbury.
 Lee, A. D. (E. D. Jehring), London.
 Lee, B. W. (A. F. G. Blissett), Nottingham.
 Lee, K. W. (A. N. Forsyth), Derby.
 Leete, M. J. H. (W. E. Thompson), Manchester.
 Legge, R. H. (J. S. Holloway), Wolverhampton.
 Lemon, G. R. (F. L. Woolley), Southampton.
 Leon, A. J. (R. Y. Taylor), Manchester.
 L'Estrange, J. S. (D. L. Combridge), London.
 Levine, A. R. (S. Callis), London.
- *Levy, E. G. (D. F. L. Cooke), London.
 Lewis, A. F. (T. Comber), London.
 *Lewis, N. F. (J. Green), London.
 Lewis, P. H. (T. A. Aizlewood), Liverpool.
 Lewis, W. D. G. (C. G. Brown), London.
 Light, K. H. L. (F. L. Moore), London.
 Lisburn, P. J. (H. M. Pritchard), Birmingham.
 Lister, E. S. H. (G. M. Holroyde), Bradford.
 Lister, G. R. (T. A. Geoghegan), Bradford.
 Littlebury, J. D. B. (W. S. Wicks), Liverpool.
 Liversidge, J. E. (D. B. Ward), Middlesbrough.
 Livesey, K. F. (P. Clarke), Bolton.
 Livsey, C. (J. D. M. Ellis), Pontefract.
 Lloyd-Jones, M. R. (D. J. Gow), Bournemouth.
 Lock, J. W. (C. R. Tallon), London.
 Lock, P. R. H. (H. R. Mole), Taunton.
 Lowe, J. D. (K. W. Deacon), Coventry.
 Lowe, J. M. (J. Astle), Leeds.
 Lowe, M. J. (H. Tranter), Oakengates.
 Lucas, A. (W. T. Williams), London.
 Lunt, C. R. (N. H. Russell), Birmingham.
- McAuley, D. C. (C. McAuley), London.
 Macfarlane, P. F. (A. G. Touche), London.
 McGeough, P. D. (H. R. Harper), Wolverhampton.
 MacGregor, A. I. (L. P. Nicholls), London.
 MacLeod, K. (D. E. Brewster), London.
 McMorine, D. W. (J. R. Hague), Oldham.
 Mady, J. V. (J. L. Stevenson), London.
 Major, P. (J. S. Pollard), London.
 Majzub, F. (C. O. Saxby), Birmingham.
 Mannering, C. T. (L. O. B. Deacon), London.
 Mansour, F. S. (F. B. Murray), Birmingham.
 Margolis, S. (H. M. Thei), London.
 Marks, L. G. (R. O. White), London.
 Marley, T. J. (J. M. J. Davison), Newcastle upon Tyne.
 Marsden, P. G. (G. C. Hollowell), London.

* See also Certificate of Merit above.

(S) Service in accordance with the regulations of the former Society of Incorporated Accountants.

Martin, C. D. W. (S), London.
 Martle, D. H. J. (M. A. Hyams), London.
 Masterman, R. T. (G. E. Morrish), London.
 Mather, C. S. (R. L. Stockill), Driffield.
 Mattar, A. N. (A. Davies), Cardiff.
 Matthews, P. K. (F. R. Coad), London.
 Matthews, R. (J. H. Hewitt), Nottingham.
 Mattison, D. J. (R. Mould-Graham), Newcastle upon Tyne.
 Maxwell, C. J. P. (R. H. Powell), Taunton.
 Maxwell, R. B. (J. L. Kitching), Leeds.
 Meggitt, W. M. (G. D. Falconer), Grimsby.
 Mellor, M. E. (K. W. Buckley), Torquay.
 Middleton, D. J. (T. Whittam), Colne.
 • Middleley, D. E. (E. J. Rogers), London.
 Miller, J. A. (W. E. Parker), London.
 Mills, G. I. (F. B. Young), Southampton.
 Mirza, M. R. (W. S. Hood-Williams), Swansea.
 Mitchell, B. J. (C. T. Digby-Jones), London.
 Mitchell, J. D. B. (M. J. Birkett), London.
 Mittlestrass, D. A. (V. A. Tudball), London.
 Molyneux, A. D. (C. C. Taylor), Liverpool.
 Moore, G. E. (G. E. Hayes), Blackburn.
 Morgan, D. L. (D. A. Ponsford), Winchester.
 Morgan, O. A. (E. R. Thompson), Manchester.
 Morris, J. I. (G. B. Elphick), Chester.
 Morris, R. R. (A. W. Dawson), Preston.
 Morris, T. A. P. (L. J. Cocke), London.
 Morrish, R. M. (I. S. Coutts), Norwich.
 Mufti, H. S. (G. P. Griffith), London.
 Mulla, E. T. (W. H. Johnstone), London.
 Mullins, D. (W. N. Hoyte), Exeter.
 Munson, A. C. (S. A. Letts), London.
 Myers, L. (C. J. Maurice), London.

Nabavi, P. (J. J. Cooke), Leicester.
 Narielvala, N. M. (S), London.
 Nellist, J. E. H. (G. B. Judd), London.
 Nelson, B. H. (W. G. Miller), Newcastle upon Tyne.
 Newman, R. A. (F. T. Snow), London.
 Newth, R. A. L. (C. Croxton-Smith), Bristol.
 Newton, D. H. (F. S. Smith), London.
 Nichol, B. R. (L. P. Nicholls), London.
 Nicholson, A. V. (P. A. Aldrich), London.
 Nicholson, R. E. (J. C. Hardy), London.
 Nutter, J. E. (W. Wild), Manchester.

Oforiokuma, D. T. (I. M. MacDonald), London.
 O'Hagan, M. (B. A. Jones), Manchester.
 Onions, D. M. (H. R. Crouch), London.
 Orkin, B. M. (P. A. Cohen), London.
 Oyelami, A. A. (E. J. A. Clapshaw), London.

Page-Wood, M. J. (W. Yarwood), Harrow.
 Palmer, M. J. (J. T. Patterson), London.
 Pangbourne, J. R. (H. E. Halliday), Newport, Mon.
 Pantooock, C. M. (R. H. Parsons), Eastbourne.
 Paramour, J. C. (J. R. Paramour), London.
 Parkes, B. M. (F. I. Edwards), Birmingham.
 Parkin, J. L. (J. E. Broom), London.
 Parks, P. E. (M. G. Fox), Sutton.
 Partington, J. (C. G. Willett), London.
 Partridge, K. (R. Bromley), Wolverhampton.
 Pater, J. C. (T. S. Fletcher), Salisbury.
 Paul, A. K. (R. M. Patel), London.
 Payne, R. W. (J. K. Burton), Leicester.
 Peake, D. C. (M. J. Lunzer), London.
 Peapell, P. L. (W. R. V. Searle), London.
 Pembroke, M. (C. A. Bartlett), London.
 Pereira, A. F. C. (J. C. Kent), Liverpool.
 Perrett, P. W. R. (C. W. Puckett), Torquay.
 Perry, C. W. (W. H. Lawson), London.
 Perry, P. J. (G. R. Mackay), London.
 Perryman, B. K. (Miss), (D. B. Lawson), London.
 Phillips, B. E. (M. A. Horsley), Birmingham.
 Pickard, B. M. (C. H. O. R. H. R. Kohler), London.
 Pickford, E. F. (A. Rigby), Manchester.
 Pike, M. I. (D. D. Williamson), London.
 Pinnock, R. L. (J. S. Meyler), Brighton.
 Piper, J. B. McD. (H. J. Binder), London.
 Pippen, F. I. (T. E. Entwistle), Liverpool.
 Plotnek, M. A. (G. V. Perkins), Birmingham.
 Plumtree, B. M. (W. G. Medlam), London.
 Porter, M. L. (D. B. Webster), Sheffield.
 Potter, A. E. (H. Rose), London.

Potter, D. A. (B. R. Pollott), London.
 Potter, R. V. (P. F. Rogers), Liverpool.
 Potter, T. J. (D. E. Mathias), Tavistock.
 Price, E. D. (R. A. Coupland), London.
 Prince, C. (S), Leeds.
 Pring, T. N. (J. F. S. Rogers), London.
 Prior, R. F. C. (J. Mayhew-Sanders), London.
 Prosser, A. A. (S. V. Lancaster), Birmingham.
 Pugh, J. A. C. (M. J. F. Shaw), Cambridge.
 Purvis, S. L. (P. Shirley), Manchester.
 Puttock, G. T. (R. W. N. Payne), London.

Quickfall, J. E. H. (J. C. Dawson), York.

Rabindranath, A. S. (I. B. Goldstein), London.
 Rabjohns, M. W. (A. G. J. Horton-Stephens), Brighton.
 Rae-Fraser, G. C. (R. J. Fisk), London.
 Raistrick, M. G. (L. Hodgkinson), Bradford.
 Randell, P. W. B. (S. Lane), Bromley.
 Raw, J. R. F. (J. H. Mann), London.
 Rawcliffe, R. C. (Sir Thomas Robson), London.
 Rawcliffe, T. (S. Thornton), Preston.
 Rayner, A. M. (C. Ramsden), Bradford.
 Rayner, M. E. C. (A. C. Durrant), Tonbridge.
 Rees, D. (H. H. Baron), Manchester.
 Rees, D. M. (W. V. Meacock), Newport, Mon.
 Rex, N. (D. S. Glentworth), Grimsby.
 Reynolds, B. J. (S), Cardiff.
 Reynolds, W. J. (H. W. Bramley), London.
 Rhodes, W. W. (T. Bedford), Leeds.
 Richards, D. P. (O. Couse), Birmingham.
 Richardson, D. C. (J. H. Saunter), London.
 Ring, P. (L. W. H. Evans), Sheffield.
 Roberts, D. W. F. (S. Marsh), St Helens.
 Roberts, J. H. (I. Legge), Liverpool.
 Robinson, B. (J. W. Harker), Durham.
 Robinson, K. A. (M. W. Banks), Liverpool.
 Robinson, R. J. (L. R. Trill), London.
 Robson, E. S. (S), Hull.
 Rolfe, R. A. (T. R. Keens), Luton.
 Romary, J. G. R. (J. Birkett), Bristol.
 Rourke, B. (A. E. Harrison), Liverpool.
 Rowley, D. R. (R. Piercy), Birmingham.
 Roy, P. R. (S), Calcutta.
 Royce, H. (D. Winnett), Manchester.
 Rubin, M. (J. Goulding), Chorley.
 Ruddock, J. G. (A. D. Macve), London.
 Russell, R. J. (H. L. Thurgood), London.

Saideman, S. G. (C. Fenton), London.
 Saldanha, D. J. (S), London.
 Saleem, S. (C. Romer-Lee), London.
 Sallows, A. J. (R. J. Parker), Aylesbury.
 Samuels, M. I. (E. N. Jacobs), London.
 Sanders, P. T. D. (T. H. Sanders), Wellingborough.
 Sargent, F. S. (E. T. Shepherd), Cardiff.
 Sargent, G. F. (W. K. Wells), London.
 Schofield, K. (V. Matthews), Manchester.
 Scott, B. D. (A. R. Glenton), Newcastle upon Tyne.
 Scott, C. (C. Y. Lloyd), Manchester.
 Scott, D. A. (S. M. Duncan), London.
 Searle, P. F. (F. Winn), London.
 Seddon, R. K. (R. A. Pitt), Manchester.
 Setchell, P. A. (J. C. Widge), Wembley.
 Sexton, J. P. (S), London.
 Shafran, M. A. (R. L. Tillet), London.
 Shanahan, P. (R. Pinto), London.
 Shapland, D. F. (D. M. H. Jones), Newport, Mon.
 Shapland, R. G. (J. W. Lodge), Truro.
 Sharp, G. D. (R. Thompson), Spalding.
 Sharrock, J. B. (R. B. Sellers), Preston.
 Shepherd, W. J. (L. Goodman), Manchester.
 Shepherdson, J. R. (T. E. Norfolk), Hull.
 Shinton, J. (C. E. Armston), Walsall.
 Shirt, H. F. (G. C. Buckley), Stockport.
 Short, P. A. J. (M. C. Holmes), Eastbourne.
 Shuttleworth, E. (R. L. Stephens), Manchester.
 Siddons, E. G. (E. H. King), Birmingham.
 Silcock, G. J. G. (S), Nairobi.
 Sills, M. R. T. (S. A. Woolven), Liverpool.
 Simmons, P. J. (R. Brandt), London.
 Simpson, M. H. T. (H. Hurt), Nottingham.
 Simpson, R. (J. N. Straughan), Durham.
 Sims, P. H. (formerly with R. W. Frost, deceased), London.

• See also Certificate of Merit above.

(S) Service in accordance with the regulations of the former Society of Incorporated Accountants.

Slcombe, J. C. (G. L. Croom), Cardiff.
 *Slowe, R. L. (H. Arbeid), London.
 Smith, D. F. (E. J. H. Hart), Bristol.
 Smith, D. H. (F. W. Farnsworth), Derby.
 Smith, D. W. (S. Morris), London.
 Smith, G. A. (A. W. Toze), London.
 Smith, H. R. (S. Johnson), Leicester.
 Smith, J. (W. G. Lithgow), Southport.
 Smith, J. N. W. (W. E. Beddington), Derby.
 Smith, P. J. (P. Ewen), London.
 Smith, S. (E. N. MacDonald), Liverpool.
 Smith, V. D. (C. W. Massey), Birmingham.
 Smithies, M. (E. Ingle), Bradford.
 Sneller, J. E. (R. G. Wallis), London.
 Snowden, T. D. (G. A. Williams), Newport; Mon.
 Sones, J. S. (J. H. Francis), Leicester.
 Spens, The Hon. W. G. M. (W. G. Brookes), London.
 Spirit, W. (S. A. Middleton), Newcastle upon Tyne.
 Sprunt, N. W. (R. Grimble), London.
 Srihari, M. (S), Madras.
 Staniforth, A. M. C. (J. D. Barber), Sheffield.
 Stevenson, A. L. (P. D. Lacey), Bristol.
 Stewart, B. S. (J. Heacock), Birmingham.
 Story, G. J. N. (Sir Wentworth Rowland, Bt.), London.
 Streat, A. J. (S. J. G. Southon), Exmouth.
 Stretch, J. L. (F. A. Harris), London.
 Stronge, C. J. (S. P. Wilkins), London.
 Sugarman, M. A. (W. A. Shaw), Leeds.
 Sultan, R. I. (W. G. Evans), Cardiff.
 Sussman, H. S. (D. Warner), London.
 Sutherland, B. G. (H. N. Wylie), London.
 Swain, R. A. (E. D. London), Nottingham.
 Swarup, A. K. (H. W. Wilson), London.
 Sweatman, I. M. (H. T. Nicholson), London.
 Sweet, D. J. (F. Evans), Bristol.
 Swingler, J. A. (A. E. Jacobs), Birmingham.

Taggart, J. M. (E. J. Ormrod), Liverpool.
 Taylor, B. A. (D. R. Fendick), Manchester.
 Taylor, D. (M. D. Wilson), Halifax.
 Taylor, P. D. (A. G. Ray), Nottingham.
 Temple, G. B. (C. K. Frost), Leeds.
 Tennant, J. M. (Miss) (R. J. R. Gallaway), Manchester.
 Thein Myint, M. (G. F. Pykett), London.
 Thickbroom, P. A. (K. E. Davis), Enfield.
 Thomas, J. B. L. (A. T. Ratcliffe), Birmingham.
 Thomas, R. S. (F. M. Forster), Newport, Mon.
 Thompson, J. R. (G. F. B. Peirson), Coventry.
 Thompson, K. (H. P. Lawrence), Bristol.
 Thompson, R. S. (L. Ogden), London.
 Thorne, B. E. (B. L. Barber), London.
 Thring, P. S. (D. C. Burling), London.
 *Tomlinson, B. (L. R. Wilkinson), Manchester.
 Toms, D. (A. Rothburn), Manchester.
 Townsend, G. B. (F. Howarth), Manchester.
 *Treadgold, S. W. (H. E. Williams), Oxford.
 Tresidder, V. C. (T. W. Saunders), Farnham.

Turton, R. (J. Daykin), Nottingham.
 Turton, W. J. (E. W. Frost), Derby.

Vallins, J. H. (G. G. Boxall), London.
 Vellani, S.-u-D. W. (J. B. Williams), Pontypridd.
 Vesuna, S. M. (A. J. Golding), London.
 Vittle, J. D. (S. G. T. Holmes), Plymouth.

Walden, M. J. (W. A. Clubb), Cardiff.
 Wallace, J. D. O. (S. P. Wilkins), London.
 Walton, D. N. (H. A. Edwards), Newcastle upon Tyne.
 Wanders, G. J. (F. O. M. Smith), London.
 Wardle, M. G. (H. T. Scothorne), Nottingham.
 Warne, R. M. (A. Darvill), Slough.
 Watkins, G. A. (P. A. Bridger), Birmingham.
 Watson, B. D. (J. F. Nash), Kettering.
 Watson, D. A. (W. F. Hague), London.
 Watson, H. T. (R. P. Ingram), London.
 Watson, J. K. (W. H. Bevan), London.
 Watts, D. J. (N. Neatham), Warrington.
 Weaver, M. H. A. (W. W. Brown), Birmingham.
 Webb, M. C. (P. H. Hinings), Marlborough.
 Webber, D. J. (G. D. F. Dillon), London.
 Weekes, N. A. (E. C. Malyon), London.
 Welsh, I. W. (T. A. Baines), Birmingham.
 West, C. M. (S. A. Holyland), Leicester.
 Weston, J. T. (E. Baldry), London.
 Whatmough, M. J. (R. W. West), London.
 Wheat, P. S. (D. S. T. Pettitt), Bournemouth.
 Wheeler, J. D. (W. D. Anderson), Middlesbrough.
 White, R. (J. Sharp), Carlisle.
 White, R. W. (R. M. Simpson), London.
 Whitehouse, J. S. (G. St C. Wycherley), Wolverhampton.
 Whitehouse, P. (H. F. E. Stripp), London.
 Wilde, N. P. (N. B. Hayman), London.
 Wilkins, D. L. (A. H. Rodwell), Preston.
 Wilkins, J. R. (A. H. Rodwell), Preston.
 Wilkinson, J. R. (W. A. Lamerton), London.
 Wilkinson, M. A. H. (W. G. Adams), London.
 Williams, P. A. (H. G. W. Gibson), London.
 *Willings, M. R. T. (E. Caldwell), London.
 Willoughby, M. J. (I. Willoughby), Bradford.
 Wilson, A. P. (W. T. Watson), London.
 Wilson, S. J. S. (T. S. Wilson), Cardigan.
 Windle, G. H. (W. J. Soper), London.
 Window, I. A. (A. L. Rowles), London.
 Winton, H. M. (V. L. Passer), London.
 Wisely, I. W. (M. C. Cole), London.
 Woolley, P. J. (G. C. Peat), London.
 Wormald, E. C. J. (P. J. Butterworth), Bridgwater.
 Wreford, R. J. (S. R. Hogg), London.
 Wrennall, D. L. (P. N. Taylor), Manchester.
 Wrigley, T. J. B. (H. V. Barham), London.
 Wyatt, A. (E. C. Coleman), London.

Yates, P. C. (F. R. Waller), London.
 Yourston, G. L. (R. I. Pools), Richmond, Surrey.

642 Candidates passed.

746 Candidates failed.

INTERMEDIATE EXAMINATION

Held on May 24th, 25th and 26th, 1960

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the Frederick Whinney Prize and the Plender Prize for the paper on Book-keeping and Accounts (Partnership)

Daeche, William Leslie (C. A. Wellington), Brentwood.

Second Certificate of Merit and the Stephens Prize

Hoare, Roger John (H. A. R. J. Wilson), London.

Third Certificate of Merit and the Plender Prize for the paper on Book-keeping and Accounts (Executorship)

Davey, James Alexander (J. T. Finnis), London.

Fourth Certificate of Merit and the Plender Prize for the paper on Auditing

Flower, John Francis (G. Flower), London.

Fifth Certificate of Merit and the Tom Walton Prize

Putt, Alan Edmund (J. H. Sisson), London.

Sixth Certificate of Merit and the Flight-Lieutenant Dudley Hewitt, D.F.C. Prize

Tillett, David Rupert (W. H. Lawson), London.

* See also Certificate of Merit above.

(S) Service in accordance with the regulations of the former Society of Incorporated Accountants.

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and
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 Hepworth, H. P. (R. P. Matthews), London.
 Herbert, C. G. T. (S. Kitchen), Birmingham.
 Herring, W. E. (Miss) (S), Bournemouth.
 Heseltine, A. (F. Coates), Burnley.
 Hess, A. (T. A. Furse), Birmingham.
 Hibberd, S. L. (C. H. Kershaw), Sheffield.
 Higson, W. S. (K. H. Mackenzie), Liverpool.
 Hill, C. H. (M. J. F. Shaw), Cambridge.
 Hill, E. F. (E. W. B. Cotterell), Birmingham.
 Hindmarch, I. C. (J. H. Jackson), Leigh, Lancs.
 Hinsliff, R. (D. T. Veale), Leeds.
 Hirst, J. B. (G. D. Warrington), Huddersfield.
 Hoad, F. A. G. (F. W. Charles), London.
 *Hoare, R. J. (H. A. R. J. Wilson), London.
 Hockin, J. R. T. (J. F. Shearer), London.
 Hodgkins, A. A. (A. G. Touche), London.
 Hodgson, J. M. (D. Sirkin), London.
 Hogg, C. (B. W. Graves), London.
 Holden, K. H. (C. C. Bullock), Stoke-on-Trent.

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(S) Service in accordance with the regulations of the former Society of Incorporated Accountants.

Holdstock, G. W. (R. H. Ford), Ashford, Kent.
 Holley, D. P. (A. F. Christlieb), London.
 Holmes, J. H. (B. Gilbert), London.
 Holmes, L. (C. G. Heselton), Scarborough.
 Holmes, N. G. (J. R. Briggs), London.
 Holt, D. J. (B. T. Westhead), Stafford.
 Honey, W. A. (M. C. Holmes), Eastbourne.
 Hope, D. A. (D. J. Little), Cardiff.
 Hopkins, R. D. J. (K. J. Trenchard), Seaton.
 *Hornor, H. G. (D. A. P. Gould), Norwich.
 Hosain, S. E. (W. A. White), London.
 Howden, G. P. (G. D. Paterson), Leeds.
 Howland, R. J. (P. H. Holliday), London.
 Howorth, D. P. (S. R. Lang), London.
 Hudson, P. D. (F. W. Boyce), Bradford.
 Hughes, D. A. (J. T. Patterson), London.
 Hughes, P. J. (J. F. T. Nangle), London.
 Hughes, T. E. (J. W. Berriman), Middlesbrough.
 Hunt, M. (E. Eyley), Burton-on-Trent.
 Hursthouse, R. S. (T. R. Oliver), Nottingham.
 Hurworth, J. M. (C. A. P. Snow), Darlington.
 Huthwaite, C. B. (E. Heginbotham), Nottingham.
 Ilahi, K. M. (R. D. Gregory), London.
 Ing, S. B. (D. C. Hobson), London.
 Ireland, M. T. (R. M. Backhouse), London.
 Irshad, H. (D. R. Carston), Cardiff.
 Irvine, T. M. (K. P. B. Hovey), London.

Jackson, A. (E. W. Wells), Preston.
 Jackson, G. H. (S. J. Birkett), London.
 Jackson, P. G. (J. P. Davey), Ipswich.
 James, A. E. H. (F. A. Holyoak), Shrewsbury.
 James, C. A. M. (Miss) (B. E. Brown), Cardiff.
 Jameson, A. C. (R. H. Weston), Liverpool.
 Jarman, M. C. (D. J. Pyne-Gilbert), London.
 Joe-Adigwe, P. C. (F. W. Lincoln), Worthing.
 Joffrey, W. Z. (J. W. Shock), London.
 Johnson, H. S. (J. M. Harvey), Liverpool.
 Johnson, M. A. R. (J. K. Patrick), Sheffield.
 Jolly, R. M. (P. G. Stone), Lincoln.
 Jones, C. R. (E. K. Hill), Birmingham.
 Jones, E. P. (D. Ellis), Portmadoc.
 Jones, H. R. (J. C. Davies), Wrexham.
 Jones, J. B. (T. R. Keens), Luton.
 Jones, K. R. (G. F. Elsworth), Liverpool.
 Jones, M. W. V. (G. Chavasse), Wolverhampton.
 Jones, P. M. (Miss) (T. W. Jones), Swansea.
 Jones, T. A. (M. V. Vaughan), Portsmouth.
 Jones, T. F. D. (F. M. Montague), Poole.
 Joseph, E. (E. S. D. Bavin), London.
 Josling, M. L. (W. E. Webber), London.
 Jukes, C. (R. G. Leach), London.

Kasipillai, M. (S), Cambridge.
 Kay, T. (M. L. Phillips), London.
 Kellett, N. (W. R. Carter), Manchester.
 Kelly, B. (H. G. Meeke), Manchester.
 Kelly, C. B. (W. E. R. Short), Liverpool.
 Kendrew, G. A. (K. E. Tann), London.
 Kennish, R. W. (D. D. Rae Smith), London.
 Kenyon, J. L. (J. L. Guy), London.
 *Kewley, W. R. (J. B. Harrison), Grimsby.
 Keyte, K. W. (H. L. Barnes), Stratford-on-Avon.
 Khan, M. A. (C. Pegg), London.
 Khan, M. A. (J. I. Robertson), London.
 King, D. G. (R. F. Mason), London.
 Kingsley, P. F. (R. S. Ransom), London.
 Kingston, D. W. (E. G. S. Jackson), Bristol.
 Kirkland, P. S. (F. H. Godber), Nottingham.
 Kirkpatrick, R. J. (G. Place), East Grinstead.
 Klage, G. C. W. (A. Hall), London.
 Klein, J. B. (E. D. Bard), London.
 Knight, D. O. (G. B. Sapsford), Waltham Cross.
 Knudtson, P. C. (L. R. Treen), London.
 Kontzonis, C. A. (L. C. Curtis), London.
 Kramer, P. H. (S. S. Primost), London.

Lacey, M. J. (D. J. T. Corbett), Long Eaton.
 Ladd, D. M. (G. Carew-Jones), London.
 Lambert, M. L. (D. J. Ginnings), London.
 Langfield, G. W. (R. F. Holloway), Nottingham.
 Langford, R. (C. A. P. Snow), Darlington.
 Lanzkron, A. R. (S. R. Russell), London.

Lashmar, N. H. (V. A. Tudball), London.
 Lawson, R. W. (L. W. E. Turquand), London.
 Lawson, S. (W. R. Malvern), London.
 Lazarus, B. J. (A. Gross), London.
 Leach, A. R. (V. F. Berry), London.
 le Blanc, N. M. G. (P. S. Tanswell), Twickenham.
 Leeds, A. H. (B. M. Bird), London.
 Le Maire, M. J. E. (P. W. Mertens), London.
 Le Meur, P. R. (R. W. Ewan), London.
 Levett, A. (J. A. Tuffin), Brighton.
 Lewis, A. G. (F. N. Griffith), Kendal.
 Lewis, E. G. (E. S. D. Bavin), London.
 Liddell, R. S. (K. J. Sharp), Carlisle.
 Lightfoot, A. (T. E. Dent), Middlesbrough.
 Ling, W. O. (O. A. J. Ling), Derby.
 Little, B. D. (J. L. Merchant), London.
 Livesey, A. (C. M. Booth), Preston.
 Loch, A. D. (H. G. W. Gibson), London.
 Lock, B. P. (J. E. Talbot), London.
 Lock, M. D. (E. R. Nicholson), London.
 Lock, R. B. (G. E. Morrish), London.
 Lombard, W. (E. C. Howie), Newcastle upon Tyne.
 Longland, J. L. (B. T. Barker), London.
 Lord, G. M. (P. G. Wenham), London.
 Lovibond, S. L. (C. Romer-Lee), London.
 Lowdon, L. (J. W. Raw), London.
 Luck, A. Y. (C. W. Tyrrell), London.
 Lueder, J. E. C. (S. Jackson), London.
 Lugg, R. W. (D. V. Mundy), Gloucester.

McAllister, M. J. (B. A. Schanschieff), Northampton.
 McDermott, J. R. (C. E. Hall), London.
 McGlashan, J. B. (C. O. Reay), Liverpool.
 McGlinchey, J. F. (W. C. Craig), York.
 McIntyre, G. (L. S. Wrightson), Grimsby.
 McKenzie, A. R. (R. P. A. Easton), Hull.
 McLellan, M. D. (D. R. Fendick), Manchester.
 McMorran, F. K. (S. Parkinson), Leicester.
 McWhinnie, C. D. (S. Edgcumbe), Plymouth.
 Magson, N. J. (D. L. T. Creer), York.
 Maher, P. F. (W. R. Johnson), Manchester.
 Mahon, T. B. (W. S. Samuda), Worcester Park.
 Maiden, E. D. (B. Walker), Birmingham.
 Mallett, B. (P. A. Whitehead), Birmingham.
 Marlow, A. W. (G. R. Mackay), London.
 Marsh, B. H. (A. E. M. Harbottle), Bristol.
 Marsh, M. R. L. (J. Sims), London.
 Marshall, J. F. (A. H. Miller), Eastbourne.
 Martin, D. (A. A. Beveridge), Newcastle upon Tyne.
 Martin, P. G. (B. C. Bingham), London.
 Martin, T. (S), London.
 Mason, J. A. (A. H. Lawrence), Cardiff.
 Massey, P. J. (S. Howard), Stockport.
 Matovu, L. (D. H. E. Kahn), London.
 Matthews, L. (W. H. Jones), Swansea.
 Mattison, J. T. (E. Baldry), London.
 Maurice, D. J. (D. Webster), London.
 May, B. C. (J. Mearns), London.
 May, J. G. (E. C. Meade), London.
 Mayes, M. G. P. (C. E. Bond), London.
 Mayfield, O. A. (L. J. Sparshott), Birmingham.
 *Mayston, A. P. (B. E. Pearcey), London.
 Mead, H. S. (C. Romer-Lee), London.
 Meatyard, G. A. (J. M. Harrison), Liverpool.
 Meek, D. C. (D. J. Gulliford), Newport, Isle of Wight.
 Meggitt, D. K. (W. J. Newton), Birmingham.
 Mehta, G. K. (B. Susman), London.
 Meins, J. C. (B. E. Basden), London.
 Merle, G. D. (D. D. Rae Smith), London.
 Merrin, D. S. R. (V. A. Bell), Manchester.
 Metcalf, R. (S), Walsall.
 Middleton, M. J. (D. A. W. Hamilton), Bexhill-on-Sea.
 Mills, B. J. (C. S. Goddard), London.
 Milner, R. (K. Russam), Bradford.
 Milton, J. C. (S. G. T. Holmes), Plymouth.
 Mitchell, N. F. (S), London.
 Mobsby, P. M. Q. (J. P. C. Richardson), London.
 Mookerji, A. L. (C. Y. Lloyd), Manchester.
 *Moore, M. J. (N. F. Norris), London.
 Morcombe, F. N. (D. E. Picot), Jersey.
 Morgan, C. E. (C. E. M. Hardie), London.
 Morgan, R. K. (A. Millichip), Swansea.
 Morley, P. R. (R. F. Clark), London.
 Morley, P. (F. W. L. Phillips), Chatham.

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Morrell, P. H. (L. D. Morse), London.
 Morris, P. (F. B. Proctor), London.
 Morris, S. M. (J. S. Braine), Leeds.
 Morrish, A. J. (B. D. Barton), London.
 Morton, A. H. (H. Percival), Manchester.
 Moss, M. D. (S. Harrison), London.
 Moxon, L. (R. Walton), Leeds.
 Mukarram, S. M. (P. M. Gimson), London.
 Muldoon, D. R. (H. A. Beale), London.
 Mulvey, J. R. (R. H. Weston), Liverpool.
 Murfin, B. L. (D. T. Veale), Leecs.
 *Murphy, J. M. W. (R. L. Jones), London.
 Murray, D. I. (E. Heginbotham), Nottingham.
 Murray, J. A. G. (H. A. Benson), London.
 Myers, F. (A. G. Bedingfield), Sheffield.

Napier, J. A. (J. A. Nicholson), London.
 Nash, D. H. (D. B. Hirschfield), London.
 Needle, R. (R. F. Sumner), London.
 Nelson, W. J. (G. F. Saunders), Liverpool.
 Nettleship, R. (S. Marsden), Sheffield.
 Neufeld, V. J. (I. B. Glickman), London.
 Newbould, J. M. S. (W. E. C. Offer), Oxford.
 *Newey, F. G. (K. J. Milligan), Birmingham.
 Nicholson, P. (F. G. Hill), West Fartlepool.
 Norland, C. C. (C. H. S. Lewis), London.
 North, N. L. (C. R. Riddington), Leicester.
 Northcott, B. J. (D. G. Roberts), London.
 Norton, I. B. (W. N. Bassett), Birmingham.
 Norton, K. A. (G. L. A. Davis), London.
 Noyes, G. H. (J. T. Isherwood), London.
 Nugent, M. (J. McMurray), Manchester.
 Nutt, D. N. B. (G. H. Brown), London.

O'Brien, G. (D. R. Fendick), Manchester.
 O'Callaghan, P. J. (A. J. Barsham), London.
 Oddy, R. L. (M. D. Wilson), Halifax.
 Oglesby, H. (H. A. Beale), London.
 Oh, C. L. (C. J. Maurice), London.
 Oldfield, E. (F. W. Bailey), Leeds.
 Oliver, J. E. (H. J. Prestwich), Blackpool.
 O'Neill, H. (J. O. Knight), Nottingham.
 Orme, T. (H. Hardy), Wakefield.
 Osenton, D. S. (F. K. Berry), Maidstone.
 Owen, D. G. (C. Phizackerley), Chelmsford.
 Owens, S. J. (B. Arnold), Watford.

Palmer, M. D. (J. J. Penny), Leeds.
 Pangbourne, D. G. (A. D. Inglis), London.
 Paramsothy, S. A. (L. S. Fenton), London.
 Parker, A. J. (P. Pope), Bath.
 Parker, M. E. (S. C. Parlett), Margate.
 Parker, R. A. (C. T. Digby-Jones), London.
 Parker, T. R. N. (W. N. Hoyte), Exeter.
 Parsons, D. A. (F. G. F. Drake), Bridgwater.
 Partridge, A. (S), London.
 Patterson, W. N. (S. L. Forwood), London.
 Payne, A. T. (H. R. Hands), Birmingham.
 Pearce, G. D. S. (V. Walton), Leecs.
 Pearce, L. R. (F. W. Charles), London.
 Pearce, M. G. (R. R. Davies), Cardiff.
 Pearson, M. (N. Smith), Hebden Bridge.
 Peck, J. E. (D. H. M. Jones), London.
 Pell, F. T. C. (H. G. Ellis), Nottingham.
 Pelley, I. R. (E. B. Bate), Bristol.
 Penfold, A. A. F. (R. H. Diaper), London.
 Penfold, R. C. (D. L. Forbes), London.
 Pepper, D. I. (H. J. Gittoes), Birmingham.
 Percival, A. H. (J. A. Potter), London.
 Perera, S. A. B. J. (M. J. Lunzer), London.
 Pettitt, D. G. (F. C. D. Swann), Cambridge.
 Phrakhun, R. S. (T. T. Hodgson), Brighton.
 Picksley, B. P. (F. H. Turner), Lincoln.
 Piper, C. E. J. (J. Reddaway), Exeter.
 Piper, J. D. (W. F. Baines), London.
 Pitchford, G. (I. W. Riley), Keighley.
 Pitt, B. J. (J. McP. McKenzie), Birmingham.
 Pockney, P. C. B. (M. E. Hatch), London.
 Porter, C. G. (W. F. Miles), Birmingham.
 Porter, D. E. (D. F. Pratten), Swansea.
 Porter, N. M. (A. F. Clarke), Liverpool.
 Potter, J. S. (J. F. Worsley), Burnley.
 Potter, K. H. (E. J. Woodhams), London.
 Potts, J. D. (R. H. Gibson), Barnsley.

Potts, M. S. (W. E. Carnelley), London.
 Poulson, D. F. (W. P. Scowcroft), Liverpool.
 Pow, D. F. (E. Richmond), London.
 Powell, W. R. (D. V. Mundy), Gloucester.
 Price, R. W. W. (P. C. Cardno), Bradford.
 Pritchard, F. A. (L. K. Taylor), Manchester.
 *Prozzer, N. T. (S. Lever), London.
 Pryce, D. A. (D. D. Rae Smith), London.
 *Putt, A. E. (J. H. Sisson), London.

Rackley, D. W. (R. R. Porter), Torquay.
 *Radcliffe, R. F. K. (T. O. Brennan), London.
 Rajaretnam, E. K. (S), Colombo.
 Rakison, M. A. (J. Harrison), London.
 Randall, F. J. (R. C. Deith), London.
 Rauch, J. P. (A. C. Bright), Guildford.
 Read, J. C. (S. H. Sharp), London.
 Reed, B. J. (F. W. Charles), London.
 Reed, J. N. (J. Reed), South Shields.
 Reed, J. W. J. (J. M. P. Watling), Bristol.
 Reed, P. J. E. (F. C. Nelson), London.
 Reid-Marr, G. (P. C. F. Larking), Maidstone.
 Reynolds, J. H. (D. L. Pritchard), Carmarthen.
 Reynolds, S. (F. S. Mowforth), Hull.
 Richards, K. J. (D. Shields), Manchester.
 Richardson, G. J. (C. S. Stephens), London.
 Richardson-Hill, J. G. (J. Heaford), London.
 Riddleston, J. M. (J. N. Wagstaff), Leicester.
 Ridehalgh, D. B. (W. Dickenson), Blackburn.
 Ridehalgh, F. (G. E. Hayes), Blackburn.
 Rider, E. (F. D. M. Lowry), Liverpool.
 Ridley, W. P. (B. M. Till), London.
 Roberts, A. N. (A. Brown), Newcastle upon Tyne.
 Roberts, J. M. (A. T. Dowd), Manchester.
 Robertson, J. D. (Miss) (L. K. Wilson), Warrington.
 Robinson, A. (W. F. Masters), London.
 Robinson, A. J. (E. M. Robinson), Newcastle upon Tyne.
 Robinson, I. O'B. (A. Jarratt), Hull.
 Robinson, P. A. (H. Crawshaw), Accrington.
 Robinson, P. B. (H. Robinson), Norwich.
 Robson, P. M. (K. F. Paine), London.
 Rogers, A. V. (C. A. Robinson), Uxbridge.
 Rogers, B. C. J. (H. G. J. Foulger), London.
 Rogers, B. J. (R. H. Jarritt), Bristol.
 *Rogers, J. D. M. (R. G. Smith), London.
 Ross, C. N. (D. B. Ward), Newcastle upon Tyne.
 Ross, D. (F. S. Smith), London.
 Ross, W. (G. R. Appleyard), London.
 Rougier-Chapman, A. S. D. (K. R. Colman), London.
 Rowlands, T. A. (R. C. de Zouche), Liverpool.
 Roy Choudhury, B. K. (D. Warner), London.
 Ruffie, A. J. H. (W. J. Jackson), London.
 Rushbrooke, A. P. (C. C. L. Randall), London.
 Rushton, F. N. (W. E. Parker), London.

Sabin, T. T. (L. Smith), Nottingham.
 Sampson, D. F. G. (S), London.
 Sanderson, A. (S. C. Rainbow), Hitchin.
 Sandham, W. S. (R. H. Martin), Cardiff.
 Sanmugasuntharam, K. (R. W. Leigh), London.
 Sanyal, S. (S. W. Percival), London.
 *Sargent, A. C. (F. J. Hammond), London.
 Savile, D. W. (F. M. Hall), London.
 Schaller, R. L. T. (C. G. Brown), London.
 Scouler, A. C. (J. D. Wells), London.
 Scragg, M. J. (B. T. Barker), London.
 Seal, D. C. (R. D. Clarkson Webb), London.
 Senior, E. N. (A. Bleazard), Blackpool.
 Senior, G. S. (F. Binns), Huddersfield.
 Shah, S. B. (A. J. Knights), London.
 Sharman, J. (G. E. Morrish), London.
 Sharp, J. H. (F. Battersby), Manchester.
 Shaw, W. H. (W. E. Ellison), Leeds.
 Sheaman, G. W. (E. C. F. Schooling), Workington.
 Sheasby, D. N. (S. W. Penwill), London.
 Shiels, D. J. (R. G. Leach), London.
 Sibson, I. D. (A. H. Marsden), Bristol.
 Sills, C. D. (W. R. Tomkinson), London.
 Simmonds, G. M. (M. Brief), London.
 Simmons, S. (J. Wolchover), London.
 Sims, J. M. (J. H. Sims), London.
 Sinclair, A. (P. Sober), London.
 Sinclair, K. L. G. (W. B. Paton), London.
 Sinha, R. N. (D. L. Evans), London.

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(S) Service in accordance with the regulations of the former Society of Incorporated Accountants.

- Siviter, D. H. J. (C. J. M. Bennett), London.
 Sleater, W. (G. Hey), Manchester.
 Sloan, C. (F. W. Lythgoe), Liverpool.
 Smart, R. C. (V. S. Gregg), London.
 Smith, A. R. (W. Murphy), Loughborough.
 Smith, B. M. (R. Thompson), Spalding.
 Smith, D. A. (M. G. R. Keeling), London.
 Smith, E. T. (H. P. Patterson), London.
 Smith, J. A. (G. P. Shepherd), London.
 Smith, J. L. (C. L. O'Callaghan), Nottingham.
 Smith, K. R. G. (D. B. Hirshfield), London.
 Smith, M. A. (J. T. Corbett), London.
 Smith, M. D. E. (G. Hawley), London.
 Smith, P. B. (A. H. Sharrock), Bolton.
 Smith, P. M. (J. D. D. Newton), London.
 Smith, R. M. (G. R. Eaton), Leicester.
 Smith, T. D. (R. Mackie), Wolverhampton.
 Smith, W. A. (J. C. Proudler), Redcar.
 Smith, W. J. (R. G. Cotter), Liverpool.
 Sodawala, H. T. (G. J. Burke), London.
 Solomon, S. A. (S. Sharpe), London.
 Somani, C. C. (R. C. Shelley), London.
 Sonneborn, P. M. (D. A. Bussell), London.
 Spalding, R. L. (P. A. Leicester), Worcester.
 Spencer, P. J. (P. A. Bayliss), London.
 Squires, R. F. (J. D. Winter), Retford.
 Stableford, D. G. (P. E. Wallis), Liverpool.
 Stafford, M. W. (C. W. Hudson), London.
 *Stand, R. R. (J. E. Critchley), Oxford.
 Standing, N. (D. R. Fendick), Manchester.
 Stanley, R. M. G. (Sir Wentworth Rowland), London.
 Stanley, T. F. (H. J. Binder), London.
 Stanton, N. T. (H. Bullard), Northampton.
 Stanton, S. M. (G. Finlay), London.
 Stanyer, P. J. (W. C. Nelson), Wolverhampton.
 Stares, M. (R. H. Stevens), London.
 Stephenson, P. (S. F. Shuttleworth), London.
 Stevenson, J. (A. Forsyth), Derby.
 Stewart, D. P. (C. G. Brown), London.
 Stewart, T. M. (J. D. W. Marle), Bristol.
 Stobbs, R. A. C. (H. J. Sargeant), West Hartlepool.
 Stone, R. (M. Cooper), London.
 Stonehouse, B. H. (M. L. Homer), Kidderminster.
 Storrie, C. J. (G. B. Watson), Oxford.
 Strickland, B. (J. K. Patrick), Sheffield.
 Sturge, S. H. (Sir Harold Gillett), London.
 Such, I. (E. G. Clegg), Manchester.
 Sutcliffe, S. A. (S. Sutcliffe), Halifax.
 Sutherland, C. V. W. B. (N. Dunn), Newcastle upon Tyne.
 Sutherland, R. H. S. (E. A. W. Gisby), London.
 Sutton, D. J. (G. H. Thompson), London.
 Sutton, J. D. (N. M. Civval), London.
 Sutton, T. F. (J. Perfect), London.
 Swade, M. I. (W. P. Brightman), Manchester.
 Swayne, D. J. (E. C. Patrick), Farnham.
 Taylor, B. A. (W. G. Fox), Leicester.
 Taylor, R. P. D. (C. Ramsden), Bradford.
 Thein, M. M. (O. Furnival-Jones), London.
 Thomas, P. W. (H. E. Traylen), London.
 Thomas, R. H. (Miss) (R. E. Goddard), Brighton.
 Thompson, A. (W. S. Twaddle), Newcastle upon Tyne.
 Thompson, A. R. (L. Owen), Birmingham.
 Thompson, B. (D. Tanfield), Dudley.
 Thompson, D. M. (G. C. Feat), London.
 Thornber, J. E. (F. S. L. Moon), Clitheroe.
 Thorne, G. A. (I. A. Wallace), Brighton.
 *Tillett, D. R. (W. H. Lawson), London.
 Tobin, T. C. (D. Smith), London.
 Tomlins, R. J. (J. R. F. Williamson), London.
 Toppie, B. S. (M. H. Turner), Ipswich.
 Trethewey, L. L. A. (W. G. A. Russell), Birmingham.
 Triggs, P. W. (Miss) (E. R. Nicholson), London.
 Trowell, P. G. (J. W. Margetts), London.
 Trumper, N. P. L. (E. E. Laddiman), Wellington.
 Turnbull, G. (P. G. Brown), Sunderland.
 Turner, J. (Miss) (J. G. Austin), Ashby de la Zouch.
 Turner, The Hon. J. A. (W. F. Charles), London.
 Turner, K. F. (H. T. Easdale), London.
 Turp, M. S. (R. J. W. Phillips), Colchester.
 Twigg, T. J. (E. E. Boyles), London.
 Uphill, T. E. (M. Sheppard), Maidenhead.
 Upton, B. W. (A. S. Price), Leicester.
 Vaile, I. L. B. (P. J. Butterworth), Bridgwater.
 Vaisey, N. H. (D. Neal), Birmingham.
 Venables, P. T. (J. E. Critchley), Oxford.
 *Vickery, C. (F. W. Bright), Newport, Isle of Wight.
 Vickery, I. L. (G. Withnall), Birmingham.
 Vigo, O. O. (Mrs.) (H. S. Borton), Blandford.
 Viner, G. (J. G. Raymond), Chester.
 *Vyas, G. M. (R. M. Patel), London.
 Waddington, J. (Miss) (G. H. Murray), Manchester.
 Waddington, J. F. (A. C. Unthank), London.
 Waghorn, D. J. (F. A. Lipscomb), London.
 Wain, J. L. (P. S. Hawkings), London.
 Waite, G. E. G. (B. Keohane), Newport, Mon.
 Wakefield, D. J. (G. H. Kingsmill), Swindon.
 Walker, F. E. (W. E. Carnelly), London.
 Walls, J. A. (W. J. Jackson), London.
 Walt, V. G. B. (M. Shirley-Beavan), London.
 Wandless, J. R. (T. R. McBride), London.
 Ware, F. J. (L. W. Robson), London.
 Waring, D. (W. T. Horsfall), Liverpool.
 Warren, A. B. (B. W. Wade), London.
 Warren, J. (A. G. Touche), London.
 Warren, P. B. (H. Parsonage), Chester.
 Waterhouse, A. K. (J. L. Wilson), Leeds.
 Watkins, P. G. (P. F. Carpenter), London.
 Watson, P. N. (C. R. Watson), Dorking.
 Watson, P. (Miss) (D. D. Rae Smith), London.
 Watson, R. A. (R. H. Wood), Bradford.
 Watson, T. J. (S. R. Herrick), Leicester.
 Watts, D. (Sir William Carrington), London.
 Waywell, R. B. (T. H. Bell), Manchester.
 Weale, M. A. (H. B. C. Smith), London.
 Webb, G. D. (A. A. Nyfield), London.
 Webb, M. F. (R. W. Gorman), London.
 Webster, A. (J. Sutton), Stockport.
 Weeks, C. A. (W. M. Stones), Portsmouth.
 Weight, T. J. (W. F. Hayward), Manchester.
 Weir, A. L. (V. F. Stedeford), Birmingham.
 Wells, D. A. (G. H. Vieler), London.
 Welton, A. (F. V. Hussey), Ipswich.
 West, T. W. (F. A. M. McDaniel), London.
 Westcott, J. D. (S. F. Shuttleworth), London.
 Wheels, R. A. (G. D. F. Dillon), London.
 Whitaker, J. McD. (J. R. Hamilton), London.
 White, D. J. (A. J. Gill), Lowestoft.
 White, N. (D. T. Veale), Leeds.
 Whitehorn, J. L. (D. C. Burling), London.
 Whitfield, M. C. N. (D. N. Smith), London.
 Whittington, K. J. E. (J. H. Varcoe), Bristol.
 Whowell, R. H. (R. A. Haigh), Leicester.
 Wickens, R. (N. M. Askwith), London.
 Wicksteed, J. H. (G. A. Taylor), Kettering.
 Wightman, G. (J. Christie), Huddersfield.
 Wilcock, G. A. (D. J. N. Tchaikowsky), Manchester.
 Wild, J. D. (J. M. Farraday), Bury.
 Wilders, D. T. (B. E. Bäsden), London.
 Wilkie, M. H. (J. Hopkinson), Fleetwood.
 Wilkins, R. J. (W. T. Hunter), Maidstone.
 Williams, A. D. (E. R. Nicholson), London.
 Williams, C. C. (R. Goodwin), Derby.
 Williams, P. (J. Bromley), Southampton.
 Willows, G. F. (H. Lofthouse), Keighley.
 Wills, W. E. (E. G. Shearing), Truro.
 Wilson, J. R. T. (N. B. Hart), Brigg.
 Wilson, J. W. (J. Thornton), Lancaster.
 Wilson, K. (A. L. Braithwaite), Leeds.
 Wilson, L. H. (H. A. McCann), London.
 Wilson, M. J. (N. R. Ashman), Guernsey.
 Wilson, M. S. (J. P. S. Edge-Partington), London.
 Wilson, R. E. (R. Mould-Graham), Newcastle upon Tyne.
 Wineberg, S. (J. H. Davidson), Leeds.
 Winslet, R. (A. R. Tyler), East Grinstead.
 Wood, E. W. (C. E. Kendall), Portsmouth.
 Wood, J. E. (H. D. Hewines), Walsall.
 Wood, T. R. (P. A. C. Vincent), London.
 Wood, W. M. (A. Hanson), Manchester.
 Woodcock, G. D. W. (S. J. Gunby), Leicester.
 Woodley, K. S. (R. F. George), London.
 Woods, K. J. (K. Johnson), Leicester.
 Woodthorpe, A. E. (S. G. G. Ohly), Hove.
 Woolley, J. S. B. (S. V. Lancaster), Birmingham.
 Worthy, C. R. (J. H. Lundy), Sunderland.

* See also Certificate of Merit above.

(S) Service in accordance with the regulations of the former Society of Incorporated Accountants.

Wortley, A. J. (J. S. Wortley), Sheffield.
Wright, B. M. (J. D. Askew), Cheltenham.
Wright, J. R. (T. G. Rimington), Spalding.

Xenophontos, E. (B. L. Barber), London.

Yarnall, M. J. (D. E. Wood), Walsall.
Yealland, R. I. (M. W. Jacobs), Ryde.
Young, D. (J. S. Haywood), Sheffield.

Zamindar, Y. A. (S. Lipman), London.

872 Candidates passed.

1164 Candidates failed.

PRELIMINARY EXAMINATION

Held on May 17th, 18th, 19th and 20th, 1960.

Full List of Names of Successful Candidates

(in alphabetical order)

Allured, J. J., Sale.
Ashworth, D. O., Nelson.

Barton, T. J., London.
Bashforth, D. A., Wigan.
Bond, J. A., Southport.
Breen, D. J., London.

Cabutti, G. F., London.
Chapman, B. G., Hampton Wick.
Charlton, D. J., Hyde.
Clarke, A., Keyworth.
Cohen, H. D., London.
Coomaraswamy, V. N., London.
Couzens, L., Oldham.

Dimery, A. R., Berkeley.

Faruqi, S. A., London.
Fermor, G. L., London.
Folorunsho, A., London.
Forbes, I. D., London.

Gardiner, K., Bolton.
Goodacre, I., Sheffield.
Gwilt, J. S., Shewsbury.

Hamper, N. D., Leigh-on-Sea.
Hampton, D. K., Sevenoaks.
Hand, A. P. V., Wolverhampton.
Hennessy, W. A., London.
Herriman, B. L., Liverpool.
Holmes, T. W., Sheffield.

Ingham, P., Bradford.

Jones, J. M., Dovercourt.

Lambert, J. B., Southall.
Lofthouse, J. S., Castleford.
Lowe, S. P., Liverpool.

McGowan, P. F., Wollaton.
Manners, B. E., Tonbridge.
Manning, R. F., Bexley.
Mansfield, J., Birmingham.
Marston, O., Loughborough.
Massen, A. C. M., London.
Mayes, C. A., London.
Milne, A. M., Chester.

Newman, J. V., Tadworth.

Ogden, P. J., Sale.

Parkin, J. R., Carnforth.
Patel, B. M., London.
Philpott, K., Canvey Island.
Platt, R. G., Stoke-on-Trent.
Porter, R. M., Hull.
Prytherch, E. A., (Miss), Chester.

Randell, A. G., Chislehurst.
Ratford, A. G., Herne Bay.
Reddington, P., Manchester.

Seegobin, R., Croydon.
Sellers, M. W., Manchester.
Shalome, D., London.
Shaw, I. G., Wirral.
Sheppard, B. M. R., London.
Smith, R., Leeds.
Smithson, A. L., Stockport.

Thompson, C. P., Oldham.
Turland, P. H., Southall.
Waddington, B. K., Keighley.
Walder, A., Bexleyheath.
Warren, R. S., Manchester.
Watson, G. K., Colchester.
Woodhouse, B. E., Fareham.

65 Candidates passed.

195 Candidates failed.

Summary of Results

					<i>Final</i>	<i>Intermediate</i>	<i>Preliminary</i>	<i>Total</i>
Candidates Successful	..	..	..	..	642	872	65	1,579
Candidates Failed	..	..	..	..	746	1,164	195	2,105
Candidates Sat	..	..	..	..	1,388	2,036	260	3,684

EXAMINATIONS OF THE SOCIETY OF INCORPORATED ACCOUNTANTS

(In Voluntary Liquidation)

The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants of Scotland, and The Institute of Chartered Accountants in Ireland, in accordance with the schemes of integration with The Society of Incorporated Accountants (in voluntary liquidation), conducted the Final examinations of the Society in May 1960.

FINAL EXAMINATION

(Names of Successful Candidates)

1. Candidates for membership of The Institute of Chartered Accountants in England and Wales.

Adams, A. J., Harlow.
Allan, G., Newcastle upon Tyne.
Angus, B. L., London.
Aspray, R. G., (S. V. Griffith), Manchester.

Bailey, J. T., (C. Thornton), Preston.
Barbrook, D. C., London.
Barnes, J. H., London.
Bath, A. H., (S. V. Mann), Coventry.
Boyes, R., (H. K. Marsh), Luton.

Bragg, A. S., (J. T. Singleton), Nottingham.
Briggs, G. E., (A. H. Hall), Coventry.
Brisley, E. W., London.
Brown, G., Newark.
Brown, N. R., Birmingham.
Burridge, M. J., (M. W. Smith), Poole.

Carbine, D., Bradford.
Challinor, H. A., (D. H. Lewis), Wolverhampton.
Cox, D. R., (W. B. Hall), Hull.

Currie, D. S., Manchester.

Davies, S. J., Nottingham.

Davy, B., (A. G. Ray), Nottingham.

Dawes, D. W., (F. H. Cornelius), London.

Dodsworth, P. W., (J. A. W. Manderson), Douglas, I.O.M.

Down, P. G., Southampton.

Dwan, G., (H. Lomax), Manchester.

Edwards, D. J., (C. Pearson), Liverpool.

Edwards, R. E. M., (J. D. Brown), London.

Eteson, D. A., (L. Eteson), Keighley.

Flack, P. C., (W. E. G. Kirby), Colchester.

Gardiner, L. W., (R. J. Osborne), London.

Garner, K., (J. A. Hamer), Manchester.

Gater, P. W., (J. P. Elliott), Newcastle, Staffs.

Gillespie, F. (G. C. Wilkinson), Middlesbrough.

Gomes, B., (J. B. Yearsley), Manchester.

Gordon, M. A., (Miss) (Miss M. Sinclair), London.

Goult, G., (M. G. R. Keeling), London.

Griffiths, D. W., Taunton.

Grover, J. L., (F. Thomerson), Brighton.

Hall, S. V. T., (Miss) (W. J. Wadley), Worcester.

Hancock, P., Preston.

Handcock, J. L., (W. S. Dalby), Newcastle, Staffs.

Hanks, K., London.

Harley, M. E., Leicester.

Haward, W. E., London.

Hayes, P. J., London.

Hinkins, G. A., (S. R. Heasman), London.

Hird, A. J., Bradford.

Hixson, E., (A. S. Donald), Bournemouth.

Hood, P. L., (J. H. Simmonds), Redcar.

Hooper, J. W., (A. C. Blake), London.

Hurley, E. A., (J. H. Marshall), Thame.

Inchley, E. A., (H. M. Lepper), Northampton.

Inman, A. A., (C. R. Cooke), Birmingham.

James, K. E., London.

Jasiukowicz, A. S., London.

Jones, K., (D. J. Charles), Llanelly.

Jordan, K., Bristol.

King, A., Weymouth.

King, L., (T. A. Elliot), York.

Knapton, A. W., Doncaster.

Knight, K. (A. Lee) Bradford.

Kondratiuk, J. W., London.

Leoffeler, H. V., (R. R. Coomber), London.

Lewis, T. E., Dublin.

Lishman, J. P., (N. H. Walton), Sunderland.

Lovegrove, T. J., London.

Mace, W. E., (B. Jones), Bridgend.

McLennan, J. G., (D. F. Wadge), Newcastle upon Tyne.

Magness, B. J., Worthing.

Mallett, A. H., Wellingborough.

Martin, T. J. C., London.

Moore, K. C., London.

Moore, P. G., (H. Bowers), Manchester.

Moore, R. D., (H. Rivington), Leicester.

Moran, M. G., London.

Morris, A. (H. A. F. Brookes) Liverpool.

Mycok, B., (P. D. Smith), Manchester.

Newman, J. A., (Miss) (H. B. C. Smith), London.

Nicholls, J. T., (J. D. W. Marle), Bristol.

Nickalls, R. W., (H. Myers), Newcastle upon Tyne.

Nobel, F. H., (S. E. Crowe), Otley.

Orbell, E. W., (J. T. Hibbs), Lincoln.

Orton, J. E., (H. Myers), Newcastle upon Tyne.

Patmore, J. H. F., (A. G. B. Drabble), London.

Payne, K., (D. Sirkin), Leicester.

Payne, M., (G. H. Taylor), Dudley.

Power, M. J., (W. L. Heather), London.

Redfern, P. W., Manchester.

Reid, D. J., (C. R. Goulder), London.

Richardson, P. R., (G. W. A. Gray), London.

Roberts, G., (W. Beck), Leeds.

Robertson, J., (B. T. Barker), London.

Rodgers, R. P., London.

Rogers, J. H. W., (T. H. Trump), Cardiff.

Ross, D. G., (G. Ross), Cardiff.

Santocki, J., London.

Sargent, J., (P. C. G. Larking), Maidstone.

Scargill, A. (G. Ball), Ossett.

Sibbald, J. L., Edinburgh.

Smith, A. H., Halifax.

Smith, I., Wolverhampton.

Smith, P. T. W., London.

Stockwell, G., Cardiff.

Swann, D. K., (T. R. Keens), Luton.

Sweeney, F. J., Liverpool.

Taylor, D. J., Birmingham.

Thomas, N. A., (F. R. Witty), London.

Towler, R. T., (F. C. Holliday), Leeds.

Treby, P. H., (L. H. F. Pinhorn), London.

Tugman, D. U., (J. Mason), Manchester.

Turnbull, J., (C. T. Aylen), Sunderland.

Twigger, D. I., (C. L. Wykes), Leicester.

Underwood, P. (C. W. R. Francis), Gillingham, Dorset.

Vessey, J. F., (H. Shaw), Doncaster.

Vobes, D. G. (E. C. Malyon), London.

Waller, D. E., Clacton-on-Sea.

Walter, D., (H. V. Whitaker), Birmingham.

Walton, W. A., (H. J. Hancock), Newcastle upon Tyne.

Warner, J. M., Sway.

Watkins, J. P., London.

Watson, A. S., Leicester.

Webb, D. A., London.

Wells, P. J., London.

Wilkinson, M., (C. R. Riddington), Leicester.

Williams, J. B., (M. S. Moon), Liverpool.

Wiseman, B. L., Bury St Edmunds.

Woolfson, T. I., Manchester.

2. Candidates for membership of The Institute of Chartered Accountants in Ireland.

Bevan, J. F., (L. A. Mathews), Dublin.

Brady, L. E., (J. A. Pollock), Cork.

Brennan, J. A. P., (R. J. Kidney), Dublin.

Cashell, R. S., (formerly with M. Bell, deceased), Dublin.

Donohoe, M. V., (N. Crowley), Dublin.

Duncan, R. S., (H. E. A. Addy), Belfast.

Finlay, S. P., (R. S. Baskin), Dublin.

Gethings, J. R. C., (C. D. Shannon), Dublin.

Graham, E. (R. McN. Mills), Ballymena.

Grogan, R. B., (C. J. Dalton), Dublin.

Little, B. S. W., (R. H. Wardell), Dublin.

McCullagh, G., (W. A. Kenny), Dublin.

MacDermott, L. B., Dublin.

Mountaine, N. C., (formerly with S. A. Martin, deceased), Dublin.

O'Rahilly, C. A., (J. Woods), Dublin.

Schlesinger, R. L., (J. H. Barton), Dublin.

Summary of Results

	Passed	Failed	Total	Completing Examination
Parts I and II together	2	3	5	2
Part I only	*36	28	64	—
Part II only	141	76	217	141

* Includes one candidate who sat for both Parts of the examination and passed in Part I only.

The Recognized
Weekly Organ for
Chartered Accountants
and Accountancy
throughout the World

THE ACCOUNTANT

ESTABLISHED 1874

AUGUST 20TH, 1960

VOL. CXLIII. NO. 4470



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Student Grants

NO youth of real ability and character', states The Institute of Chartered Accountants in England and Wales in its inviting booklet, *Why not Become a Chartered Accountant?* 'need be deterred by financial reasons from seeking to become a chartered accountant.' This sentiment is fully in keeping with the practice of the times. The day of that elaborate cross-entry, the premium extracted by the principal from the parent and repaid to the clerk/son over the period of his articles, has gone. Nowadays, the economics of the profession seem to be so geared as to enable the principal to pay the clerk's salary - and usually a reasonably substantial and progressive one at that - out of his own pocket without benefit, so to speak, of premium. This symptom of prosperity, or at least of financial independence, in the profession is all to the good but there must always be a number of marginal cases where, either because of the modest nature of the principal's practice or of the circumstances of the clerk's domestic background, money is not plentiful. It is in these genuine instances that help must be forthcoming if the statement of the Institute is to remain valid.

It is gratifying, therefore, to find in the recently published report of the Anderson Committee, set up in 1958 by THE MINISTER OF EDUCATION and THE SECRETARY OF STATE FOR SCOTLAND to consider the whole question of grants to students, that sympathetic consideration is given to the policy of 'making grants towards the educational expenses of students studying part-time for high professional qualifications'. In this pronouncement, the operative word is 'educational' and in arriving at its decision the Committee have endorsed two principles which have hitherto been scrupulously observed by public authorities in giving help. The first is that part-time students should not be eligible for maintenance grants from public funds though they may receive aid in respect of tuition fees and expenses. The second is that students committed to service with an employer must be regarded as part-time students. The Committee consider that to give maintenance grants to such students might well be interpreted as the subvention of wages by public funds.

The recommendation of the Committee to award-making bodies that it is in the national interest that grants towards the educational expenses of part-time students should be generous, will be generally welcomed. The cost of becoming a chartered accountant varies but, whatever it is, it is unthinkable that young people of talent and initiative should be deterred from entering the profession purely because they lack the wherewithal to pay for their training.

Taxation for Investment

HUMANITARIAN considerations apart, there are social and economic reasons for the more advanced economies assisting in the economic development of the emergent territories. The economic case for foreign aid is that these under-developed areas have a low level of productivity which at most provides little more than bare subsistence for the bulk of the population. Saving is thus impossible and investment in capital goods which could raise the level of production cannot be undertaken unless foreign capital is forthcoming. While recognizing the validity of this thesis, it is suggested that a more widespread observance of the Victorian virtue of self-help would ensure even more rapid economic progress. Unfortunately, the continuance of the East-West 'cold war' will doubtless mean that this reliance upon foreign aid by the so-called 'uncommitted' nations will tend to increase rather than decline.

It is too often overlooked by those making out a case for aid 'without strings' that although the *per capita* income in some of these countries is pitifully small, the distribution of the national income and capital is such that a major share thereof is concentrated in the hands of a small minority of citizens. Such capital, unfortunately, is seldom effectively employed within that country; partly because there is often only the nucleus of a domestic industry, but all too often because of the lack of economic and political stability.

Unless it is proposed to confiscate private property and institute a completely socialized economy, and it can be argued that this may be well suited to these countries' needs in the early stages of independence, then the Government must encourage local private enterprise and allow private capital to receive a fair return if its owners are prepared to assist in the development of the national economy. Public and private investment must go hand in hand and usually they are on a scale which cannot be financed solely out of available domestic capital or budget surpluses. All too often young Governments resort to heavy taxation which, coupled with an inefficient tax collecting machine, merely succeeds in driving

out such private funds that might have been available.

That there are methods of financing the needs of new countries through taxation is argued by DR R. J. CHELLIAH in a recent study in which he considers the fiscal problems within the under-developed country.¹ Having established certain principles, the most important of which are that the object of tax policies must be to provide adequate investment to increase the national product and that taxation of the consumer is aimed at making available real resources for investment and not for financing the Government's expenditure on revenue account, DR CHELLIAH considers recent Indian experience. Even in a country as relatively advanced as this, the problems of fiscal policy are truly startling. Of a total population of over 400 million, barely 600,000 pay income tax. Compared with a yield of some Rs10 billion from income and super-tax, it has been officially estimated that another Rs2 billion could be collected if there were no evasion. The administrative machine is understaffed and there is a lack of trained officers; as a result there is already a substantial volume of arrears of tax uncollected. Yet in this situation the rate of tax on incomes may rise to 84 per cent; in 1956 the maximum rate was 92 per cent! As if this were not enough, there is both an estate duty and a gift tax, together with a tax on wealth plus an expenditure tax of limited application to be administered.

DR CHELLIAH argues that such a structure of taxation is unsuited to a predominantly private enterprise economy. He urges that instead of steep progression in the scale of direct taxation, reliefs to stimulate private saving would help meet India's desperate shortage of capital. It is not so much equality of income that is needed, he argues, as an increase in the aggregate national income, so that all can have a larger share. The phrase 'ability to pay' has merely been used as a justification for the imposition of unrealistic rates of tax which have resulted in economic disincentives.

¹ *Fiscal Policy in Under-developed Countries with Special Reference to India*. George Allen & Unwin Ltd, London. 20s net.

Expenditure on Accumulated Disrepair

LIMITATIONS ON DEDUCTIBILITY

by T. J. SOPHIAN

THE *Law Shipping* case (3 A.T.C. 110; 12 T.C. 621) has been applied once again, this time to the claim of a purchaser of a business to deduct the whole cost of renewing trade fittings and similar articles.

Broadly, the principle of the *Law Shipping* case is that where a trading asset is purchased in a bad state of repair, the whole of the cost of repairs effected to it by the purchaser cannot be deducted by him as a trading expense. The accumulated repairs during the period of the ownership of its asset by the vendor is to be attributed to the vendor's period of trading. The purchaser can only claim as a deduction such part of the repairs as may properly be regarded as attributable to his ownership of the asset, since the date of its acquisition by him.

Thus in the *Law Shipping* case, a ship very much overdue for a survey was purchased for £97,000. The purchaser expended £51,000 on repairs to comply with the survey. Of this sum, £39,000 represented the cost of the repairs which had accumulated during the ownership of the ship by the vendors, and £12,000 represented the repairs properly applicable to the period subsequent to its acquisition by the purchaser. It was held that the purchaser was entitled to a deduction of only £12,000 in respect of the repairs as a trading expense.

One further principle may be regarded as applicable in such circumstances. The cost of executing capital improvements to assets is not deductible as a trading expense whether on an original purchase of a business or subsequently thereto. No doubt the incurring of such expenditure may well be taken into account in fixing the purchase price or other consideration payable by the purchaser to the vendor. Yet the adoption of a different form of transaction, though imposing in substance the same financial obligations on the part of the purchaser may, on the other hand, produce an entirely different tax position. One form of transaction may entitle the taxpayer to claim a deduction; while another may not.

Accumulated Repairs to Premises

One of the recent classic instances is that afforded by the case of *Jackson v. Laskers Home Furnishers Ltd* (35 A.T.C. 469; 37 T.C. 69). There the execution of repairs to dilapidated property upon

the taking of a lease, in consideration of substantial rent reductions, was held to have disentitled the lessee to claim as a trading expense any deduction whatsoever in respect of the cost of the repairs to the property. Had a full rent, on the other hand, been charged in lieu of the execution of the repairs, the rent would have been a deductible expense.

In that case a trading company in 1952 entered into a lease of premises, which required the execution of substantial repairs. In consideration of their undertaking to execute the repairs the premises were let for fourteen years at a peppercorn rent for the first year, £700 per annum for the next six years, and £1,000 per annum for the remainder of the term.

The company expended £2,295 on repairs. It was held that they were not entitled to any deduction since the whole of the expenditure was in respect of accumulations of repairs or alterations and was of a capital nature. In so far as the repairs were accumulations of repairs which had arisen in the past before the acquisition of the premises by the company, a claim for deducting their cost had to be ruled out, in accordance with the principle of the *Law Shipping* case. Had the company, on the other hand, allowed the landlords to carry out the work themselves, and paid them a full rent, doubtless the amount of that rent could have been claimed as a deduction. That, however, was no ground for contending that the deductions were permissible notwithstanding that the transaction had been carried out in another form. As Lord Greene pointed out in *Henriksen v. Grafton Hotel Ltd* (21 A.T.C. 87; 24 T.C. 453):

'Capital improvements are often made under a covenant in a lease. I have never heard it suggested that the cost of making them can be deducted by the lessee in computing his profits for income tax purposes. An attempt was made to rescue this argument from shipwreck by saying that if the lessor had undertaken to bear these payments and had consequently exacted a higher rent, the full rent could have been deducted as an expense. This argument has a familiar ring. The answer to it is that this was not the contract which the parties chose to make. It frequently happens in income tax cases that the same result in a business sense can be secured by two different legal transactions, one of which may attract tax, and the other not.'

This is no justification for saying that a taxpayer who has adopted the method which attracts tax is to be treated as though he had chosen the method which does not or vice versa.'

Cost of Replacement of Second-hand Trade Fittings

A further application of the *Law Shipping* principle is instanced by the recent case of *Bidwell v. Gardiner* ([1960] 53 R. & I.T. 158).

There, a hotel was purchased and a sum of £1,134 was paid in respect of the stock and trade fittings. The trade fittings were old, or at any rate second-hand, and as such had a value of about £68.

The purchaser on acquiring the business spent in the first year £168 odd in replacing the old fittings. In the normal way the cost of replacements of old fittings in the course of a business would be allowed as a deduction; though, on the other hand, their cost when a business was being started would be regarded as a capital expenditure, and would not be deductible.

Had the vendor of the business renewed the fittings while he was still the owner of the business a deduction could have been claimed by him in respect of the whole cost. In the circumstances of the case, however, the purchaser, it was held, was disentitled to make such a claim. At the most his claim would have to be limited to that part of the expenditure of renewal which would represent the cost of reinstating the fittings to the second-hand condition in which they were at the time when the business was acquired by him.

The reasons for this decision are of interest. In view of the alterations made by Section 19 of the Finance Act, 1953, the purchaser of a business has to be treated as if he had commenced a new business, and not succeeded to an old one.

If, therefore, he was to be treated as commencing a new business one would have to regard the position as it was when he commenced the business. Thus, the purchase of the fittings would be a capital expense, and the fittings at the commencement would not be new but second-hand. If, therefore, he subsequently replaced these second-hand fittings with new fittings, the later purchase would relate in large measure to an improvement, so that the expenditure thereon would, to that extent, be of a capital nature. Accordingly, the amount of the deduction to which he would be entitled in respect of this expenditure would be limited to the replacement cost of the old fittings, as old fittings.

Putting the argument in another way, the purchaser could not claim for the cost of replacement of the fittings, in so far as this could be

properly regarded as having fallen to be done while the business was owned by the vendor. While a trader may properly be allowed the cost of replacing *his own capital*, he could not claim for the cost of replacing the capital of someone else such as his predecessor in the business. For this purpose one could only regard what was his own capital at the time when he commenced the business. At that date his capital would have consisted, *inter alia*, of these old and second-hand trade fittings and his claim accordingly would have to be limited to their then trade value. It would seem that this principle would equally apply even where the purchaser of a business may be regarded as succeeding to the business of the vendor, so that the continuity of the same business was being preserved. *A fortiori* this principle would apply where the purchased business was an entirely new and distinct business, *qua* the purchaser.

Successor Deemed to Commence a New Business

In such circumstances, moreover, the principle laid down by the House of Lords in *United Steel Companies Ltd v. Cullington* (19 A.T.C. 132; 23 T.C. 91) would also apply to exclude a claim to full relief. In that case, two companies, each of which had accumulated allowances for losses, and one of which had unapplied balances of wear and tear allowances, amalgamated. The new company formed was, in the opinion of the House of Lords, to be regarded as an entirely new legal entity, which could not be treated as a successor to either of the two constituent companies.

Accordingly, the new company was held not to be entitled to carry forward the wear and tear allowances since the losses had not been incurred by the new company in the course of its own trading; nor, for similar reasons, was the new company entitled to the benefit of the allowances for the trading losses to which the constituent companies would have been entitled.

In the same way the purchaser of the business in *Bidwell v. Gardiner* could not place himself in the shoes of his predecessor in respect of the replacement allowances for the trade fittings. In a nutshell, it may be said that where a business is discontinued and a new business is commenced by a successor, it would be a remarkable privilege for the latter to be able to claim the tax privileges such as claims for allowances and the like, relating to the discontinued business, since otherwise the successor might obtain reliefs, e.g. wear and tear allowances, in respect of assets which were never in his ownership at all.

Running the Smaller Office

9 — METHODS OF FILING

by An O. & M. ADVISER

IN many small offices a simple alphabetical filing system is normally all that is necessary. But it may not always be so. It is worth while looking at one's filing system objectively to see not only if a better system is possible but to find ways of making the staff use the existing one to better advantage.

When anyone is faced with tidying up a filing system they usually come up against the following difficulties. Some people are allowed (or have gradually engineered) a filing system of their own. Staff are allowed to keep papers in drawers or at least are not systematically discouraged from doing it. Sections and departments want their own filing systems and fight the idea of centralization. Staff take papers from files without removing the files themselves so that anyone coming after them has to work on an incomplete set of papers. Senior executives break their own regulations by 'sitting on' files. Anyone can take a file away and put it back. Large 'miscellaneous' files are allowed to grow.

Improving the System

It is best to start right at the beginning in thinking about the filing system. A misfiled letter is a lost letter. Files exist for speedy reference and therefore it is just as important not to file too much paper (a temptation on the administration rather than on the accounts side) as to file too little. It is important to remember, too, that there is both an 'in' angle and an 'out' angle to a filing system. In other words it is just as important for a clerk to be able to get at a document quickly as to have it quickly filed.

In deciding what sort of filing system to adopt there are a number of basic questions which should be asked. What mode of reference would be best? How long will most papers in the files be active in the office before they can be stored away? How often are the papers in the files wanted?

The question of centralized files versus departmental ones is a subject which can generate a good deal of heat in the office. Centralization of a system has the advantage that it avoids duplica-

tion, improves the quality of the filing because control is easier, may make it worth while to employ a filing clerk, and overall it saves time, equipment and space. Its main drawbacks are that it can be unwieldy for specialist departments and it is usually right to keep accounts files separately. Centralization will not work if departments are scattered in a building, and departments also have a good but not overwhelming case where there is much business done over the telephone. Where it is decided that the system should be decentralized, however, the same filing rules and the same basic system should be employed.

Other Methods

Although there is always much to be said for a simple alphabetical system of filing there are other methods which are better in certain circumstances.

Some offices employ a geographical system, especially where there are overseas offices involved, but the system can be wrecked by a clerk's bad geography and complicated problems of cross-referencing can arise.

Filing by subject has much to recommend it, especially where there is a sizeable volume of technical or semi-technical work. It is often difficult, however, for juniors to use it accurately and it leaves senior staff to indicate into which files papers should go. Of course, their secretaries can often do this for them.

Numerical filing is very clear to look at but there may eventually be complexities of coding and it is easy to suffer from typing errors with references of this kind. In the end many offices need to run an alphabetical system with it as an index.

There are many other types of system, all good for certain purposes, but if an office is tempted to get away from a simple alphabetical or subject system — and there may be excellent reasons why it should — a good book or manual on filing should be consulted.

In planning filing equipment there are two main considerations and they often weigh against each other so that they have to be worked out to suit the needs of each office individually. The first is space and the second is physical convenience. Shelving of some sort is the best space-saver for there are no drawers to pull out and block narrow passages. Filing cabinets are convenient for individuals, comparatively mobile and very good for small quantities of documents. Many well-run offices have both.

The Principal's Role in Auditing

by J. D. RUSSELL, M.A., F.C.A.

ARTICLED clerks who have completed about eighteen months of articles are at a somewhat dangerous period of their careers. They will have learned the rudiments of double entry and many of them will have been ticking other peoples' figures until they are sick to death of it. There is a risk that they will get bored with the whole business and some of the older ones may be tempted to look around for something else to do.

But they should not be disheartened. This concentration on checking work is a tedious but necessary preliminary to becoming a professional accountant. It is an extraordinary thing, but this laborious process seems to be the only way in which to acquire the basic subconscious accuracy which is absolutely essential. It is all very well to look forward to the day when this sort of checking is done by machines but I do not know what the principal is going to do when he loses this opportunity of training his team.

Complementary Approach of Principal and Clerk

At this stage in their training, articulated clerks are on the threshold of shouldering a little more responsibility in the work of their offices. Some may already be taking to a partner small jobs such as the accounts of a sole trader or a social club; some may be doing much more responsible work, but I imagine that most will still be acting as assistants to more senior clerks. It will have been noticed, however, that even managing clerks of considerable experience go through the accounts which they have audited with a partner. The reason is not far to seek; two heads are better than one. The man on the job, however good he may be, will almost certainly not see the wood for the trees—at least, not the whole of the wood. It is absolutely essential to arrange things so that a balanced view is obtained. The one should know all the details of the job and the other should make a fresh independent approach to the whole audit.

Of course, the job will not be entirely fresh to the partner. One of his duties is to act as continuity man. He will have gained, from his experience of the job

in past years and from his more intimate contact with the client, a background knowledge which helps him to make his special contribution to the audit.

It will be realized that the principal may have to keep an eye on hundreds of jobs in the course of a year. He will certainly have to keep in the front of his mind up-to-date knowledge concerning about a dozen to twenty jobs at any one time. This alone is not really very difficult. What does need a great deal of practice is being able to switch one's mind from one job to another and, possibly, in succession to two or three more, at very short notice.

Moreover, a partner is not only concerned with audits; he may also be engaged at the same time with liquidations, investigations or amalgamations, apart from questions connected with running the office.

Considering the Draft Accounts

When going through a large audit with a partner it is of interest to observe his method of approach. He will, of course, examine the audit programme

and discuss the extent of the detailed checking which has been done. His inquiries, however, will usually follow the lines of a balance sheet audit. That is to say, he will consider the accounts from the finished product downwards, a complementary process to the clerk's detailed work which usually, at least in smaller audits, builds up the accounts from the individual transactions.

Thus, the partner will usually start by asking questions about the principal items in the balance sheet. To verify an asset one must be satisfied as to its existence, its ownership and its value and he will inquire what confirmation has been seen of all the assets and liabilities. He will wish to see the link between the figures which are now presented and those of the previous year and he will make similar inquiries concerning the profit and loss account.

To assist him the clerk should prepare clear and neat schedules giving the composition of all the significant figures in the accounts and showing the sources from which confirmation of the figures have been obtained. In considering the answers to such inquiries, the principal will apply his background



Mr J. D. Russell

The substance of a lecture given at the spring residential course of The Chartered Accountant Students' Society of London, at Cambridge.

knowledge of the client's affairs, his knowledge of company law and mercantile law and his greater experience of accountancy and auditing generally.

So far, I have not mentioned taxation. The principal's knowledge of taxation will depend on the organization of the firm concerned. Some firms have partners who specialize in tax. Some have special tax departments and in some, all partners have a sufficient working knowledge of the subject to deal with fairly straightforward tax questions. Whichever the kind of organization, it is a good idea for the clerk at least to attempt to draft the tax computation relating to the accounts which he is auditing.

The Broader Picture

There is, of course, a good deal more in the audit and presentation of accounts than ticking up the figures presented by the client, and I shall now touch on a variety of matters which have to be considered to indicate the greater breadth of the picture with which we have to deal.

This is not the place to give a comprehensive treatise on auditing, but to illustrate what I have in mind I have listed a number of points which are not always dealt with in the more elementary books on the subject. For this reason my remarks may seem a little disjointed, but I shall try to deal with the various matters to which I refer in some kind of logical order.

In this country, the professional auditor's approach is, of course, largely guided by the requirements of the Companies Act, 1948, although he is sometimes appointed under some other Act of Parliament regulating a specific type of business or public utility. The Eighth Schedule to the Companies Act lays down in great detail the way in which accounts of limited companies have to be prepared.

The overriding consideration is, of course, the presentation of a true and fair view of the state of affairs of the undertaking and of its profit or loss for the period covered by the accounts. With this objective in mind, it is accepted that we concentrate on material factors. We do not worry about relatively minor matters, if to deal with them as if they were matters of major importance would obscure the view which we are striving to present. One does have to be careful, however, to exercise proper judgment as to whether a particular factor is material, or not sufficiently material, in the context with which we are dealing.

Fixed Assets, Depreciation and Taxation

One of the first mentioned requirements of the Eighth Schedule is to show the general nature of the assets and liabilities. This includes a requirement not to group assets or liabilities into one figure if material constituents of that figure have very different characteristics. For example, freehold and leasehold properties are such very different kinds of assets that they should not be shown in one figure. They ought

to be separated and property held under long leases for fifty years or more should be distinguished from tenancies for shorter periods.

It is generally considered essential to provide for amortization of property held under leases with less than fifty years to run; the book value of such property should be written off over the remaining life of the lease. It is not essential, but it is considered the best practice, to provide also for amortization of long leaseholds and for depreciation of freeholds, but one often comes across cases where the client is able to show that such provision is not necessary.

The calculation of depreciation by reference to reducing balances was sometimes justified in the past by the greater charge for repairs in later years of the life of a fixed asset, and this method is also in line with the Inland Revenue's method of calculating wear and tear allowances for tax purposes. The disadvantage of this method is that the annual charge for depreciation gets less and less, and the asset is never fully written off. In these days of rapid technological progress, the likelihood of obsolescence before the asset is worn out is usually an important consideration and I think it is generally agreed that it is much preferable to provide for depreciation by the straight-line method calculated on original cost.

Even if depreciation is calculated by reference to reducing balances, the net book value of the assets is seldom the same as their written-down value for tax purposes. The latter is usually a lower figure, at least in the early years owing to the impact of initial allowances. In these circumstances, it is now considered good practice to set up a tax equalization account so that in later years, when depreciation exceeds the tax allowances, the equalization account can be drawn upon to provide the additional tax payable. The amount of the tax equalization account is usually calculated at the current rates of profits tax and income tax on the amount by which the net book value of assets on which wear and tear allowances are received exceeds their written-down value for tax purposes and the account is adjusted to the correct figure each year by transfers from or to profit and loss account. By this means, the tax charge corresponds to the profit each year.

In some businesses the Inland Revenue are prepared to give tax allowances on replacement of fixed assets instead of deducting wear and tear allowances year by year. Even if this is the case, care should be taken to see that proper provision is made annually out of profits, either for depreciation of the assets in use, or for their ultimate replacement.

Trade Investments

If investments are trade investments and not merely held as a temporary fund of surplus cash they will usually be classified as fixed assets. Fixed assets may legally be shown at original cost, less accumulated depreciation, even though they may be worth much more than the net book figure. It is our primary duty to see that the depreciation is adequate. A good deal

of thought is, however, being given to the proposition that the accounts do not give a true and fair view if the fixed assets have a current value greatly in excess of their book value. With the inflation which has taken place in recent years, most people realize that land and buildings are usually worth a good deal more than book figures. In the case of investments, however, the risk of misrepresentation is greater. If a trade investment is, in fact, a subsidiary company, then the consolidated profit and loss account will show the true earning capacity of the group and no harm is done. If, on the other hand, an investment represents less than a controlling interest in a highly profitable associated company, there could be a serious understatement of the position if a reasonable proportion of the associated company's profits is not distributed. This is one of those cases where additional information should be provided in order to give a true and fair view.

Stock and Work in Progress

Many books have been written about the valuation of stock-in-trade for accounting purposes and I shall do no more now than draw attention to certain aspects of this subject. As a general rule stock should be valued at the lower of cost or market value but it is important to remember what is meant by 'market value' in this context. It does not mean 'replacement value', that is, valued at the prices at which similar stock could be bought at the balance sheet date, unless the company is a purely trading company which buys and sells in the same market. In the case of a manufacturing or processing undertaking, the market value to be adopted, if less than cost, should be calculated by reference to the selling price of the finished product, proper deductions being made for the cost of any additional work to be done to complete the goods and the cost of selling them.

Much thought has been given, and is still being given, to the principle of including overhead expenses in stock valuations. It will be understood that not only has direct labour and direct materials gone into the company's products but indirect factory expenses and administration expenses have also been incurred in bringing the goods to the state at which their value is included in the accounts. Some people maintain that fixed overheads, for example, rent, management remuneration and loan interest should in no circumstances be carried forward and that they should be fully written off in the years in which they are incurred. There is much to be said for this point of view but the Inland Revenue take a great deal of persuading before they will agree to its adoption for tax purposes.

It is hardly necessary for me to remind my audience that they should not rely entirely on a stock certificate obtained from the management. In America it is becoming commonplace for auditors to attend at the annual stocktaking. This is not, however, usual in this country although we take steps to satisfy ourselves that stock has been taken and valued

in accordance with a satisfactory programme of work laid down by the management. In some businesses, an accountant could contribute very little by attending the annual stocktaking owing to his lack of technical knowledge. He must, however, review the stocktaking results with great care and imagination in the light of his accounting experience and his knowledge of the client's system, as his professional reputation will depend on the accounts based on the stocktaking. It will be realized that any improper omission or inclusion of an item in the stock will have a direct and equivalent effect on the net profit shown by the accounts.

Confirmations and Certificates

Although a stock certificate should only be accepted as confirmatory evidence that stock has been valued on a proper consistent basis, it is important to have such a document among the working papers. There are other kinds of confirmation which are equally necessary; for example, certificates from any third parties who hold title deeds, investments or goods on consignment, confirming that these were held in safe custody on the balance sheet date either free of encumbrance or, as the case may be, setting out the terms on which these assets were held for the client. Sometimes it is also desirable to obtain direct confirmation from debtors and creditors of the amounts owing by them or to them.

I think I should utter a warning that it is not wise to rely on a certificate given by any third party whose normal business does not include the custody of the particular asset which one is seeking to verify. For example, it is not unusual for solicitors to hold title deeds of freehold or leasehold property and one would normally be justified in accepting confirmation that they are doing so. It is, however, exceptional for investments to be held by any third party other than the client's bankers and if a bank certificate cannot be obtained to cover them one ought usually to make a personal inspection of the share certificates themselves. If they are in the names of nominees one should then also see transfers signed by the nominees as transferors and letters of trust in favour of the client.

It is customary to require from the managing director and the chief accountant a certificate that all known liabilities have been included in the accounts and that any contingent liabilities and commitments have been disclosed. One should not be put off if they say that as they are being audited you should not rely on a certificate from them. One is certainly entitled to call for confirmation that they have not incurred any liabilities about which you do not know, as the possibility must not be ignored that some unexpected transaction might have been omitted inadvertently from the books and records presented for audit.

Matters not Apparent from the Books

Not only in connection with stock valuation but in all other material aspects of the accounts being audited is it necessary to consider the effect of exceptional

items or changes in the basis of accounting. For example, it may be decided, after some years' depreciation of certain fixed assets, that their useful life is different from that originally foreseen and the annual charge for depreciation may be increased or some times reduced. There may be, and often are, good reasons for inconsistency between one year and another, but if the effect on the accounts is material it must be disclosed.

Other items which may not be picked up from the detailed checking of the figures in the books are contingent liabilities and commitments. Among contingent liabilities, it should be remembered that the uncalled liability on a partly paid investment continues for a year after the investment is sold in case the present holder of the investment is not able to put up any call money required. The commitments which one usually sees referred to in notes on accounts are capital commitments. These are required by the Companies Act to be disclosed if they are not provided for in the accounts. One should, however, keep one's eyes open for revenue commitments. These may take many forms, for example, purchases and sales of goods for forward delivery, future pensions to employees, or even long-term leases of property and if they are exceptional for the particular business, having regard either to their character or to their amount, best practice requires them to be disclosed in the accounts.

Trading Account

It will be recalled that the standard form of auditors' report on the accounts of a limited company does not refer to a trading account. We have a responsibility for every item in the profit and loss account which is required by the Act to contain certain information. If we are not asked by the client to deal in detail with the trading account it is not legally necessary to concern ourselves with the correct allocation of all the trading expenses.

One does, however, need to refer to the trading account in order to apply certain tests with the object of bringing to light the improper inclusion or omission of an item. It will no doubt be seen, as a matter of course, how the percentage of gross profit to turnover compares with the percentage for the previous year. If this varies much and if the variation cannot be explained by changes in the prices of raw materials or finished goods, there may be something wrong with the stock figure, but there may also be some other explanation. Other percentages are equally useful.

It is also helpful to make straight comparisons of individual items of income or expenditure not only with previous years' figures but also between different figures in the same accounts. This may disclose an exceptional item or a change in the basis of accounting which, if sufficiently material, ought to be explained in the accounts.

It is, of course, necessary for us to examine a number of items in the trading account to enable us to prepare the tax computation.

Consolidated Accounts

Not many articled clerks in the early stages of their training will have had much to do with consolidated accounts, which are designed to give the overall financial picture of a group of companies. The auditors' report on the accounts of the holding company, that is, the parent company having the controlling shareholdings in the subsidiaries, refers to the group accounts and these will usually take the form of consolidated accounts. The preparation of consolidated accounts is at once a technique and an art and many books have been written on the subject. They really become very complicated where overseas subsidiaries and depreciating foreign currencies are concerned. This is another aspect of auditing which the principal will have to keep in mind when dealing with the accounts of a holding company.

Internal Check and Internal Audit

The audit work should not be confined to seeing that there is documentary evidence in support of every item in the accounts. Clever frauds are seldom found that way. One should also direct one's attention to seeing that the accounts are complete; to seeing that all the entries which ought to be in the books have, in fact, been made. This is not nearly so easy. One has to rely, to a large extent, on the client's system of internal check.

As many will know, internal check depends on so arranging the work between members of a client's staff that no one transaction is completely carried through and recorded by one person. In other words, collusion between two or more persons should be necessary before anyone can get away with cash or goods belonging to the client. In small businesses with limited staffs it is not practicable to arrange for a comprehensive system of internal check but in these cases the proprietor or his trusted manager will be able to keep a close supervision over any section of the business where considerable reliance has to be placed on one person.

The audit papers ought to include an outline of the client's office and stores organization with notes of the duties and responsibilities of the senior staff. In nearly all businesses these are constantly being modified to suit changing circumstances and the clerk should be careful to keep his notes up to date. Changes should be brought to the notice of the partner.

In some businesses, usually relatively large organizations, there is an internal audit department. Unlike the statutory auditor whose responsibilities are prescribed by Act of Parliament and cannot be limited by the client, the duties of the internal auditor are laid down by the management. His duties are sometimes extended to many matters which are not directly of an accounting nature but on accounting matters his main duty is to assure the management that the internal check and the accounting system are effective not only in design but also in actual operation.

The interests of the internal auditor and the statutory auditor overlap and much can be gained from co-operation between the two. On the other hand, the statutory auditor cannot divest himself of the responsibilities laid on him by law and the extent to which he relies on the work of the internal auditor is a matter for his judgment in each case.

Fraud

It has never seemed reasonable that outside auditors should be blamed for not preventing or discovering defalcations by members of their client's staff. It is natural, of course, for the client to be angered at any loss by fraud and, knowing that the auditor spends much of his time testing the company's records from which the annual accounts are built up, it often follows that he vents his wrath upon the auditor for not having discovered the fraud. It is so easy to be wise after the event and to see what audit checks would have revealed the fraud. If a charge of negligence is made, the auditor's professional reputation is at stake and such an accusation, however unjustified, is a very serious matter.

Under the Companies Act, 1948, the auditor's duty is clearly laid down to report on the annual accounts and to state whether he is satisfied or not that they show a true and correct view of the financial position and of the results for the year. It thus appears that the auditor's duty is to report on the situation as it is, and not to report how much better the financial position or trading results might have been if certain irregularities had not taken place. It seems to me that the statutory auditor can only have any responsibility in connection with irregularities if, through not having applied the accepted standards of his profession, he passes accounts which are materially incorrect.

In the prevention and detection of fraud the statutory auditor is clearly at a disadvantage as compared with the internal auditor. He will, of course, do his best to see that the planned system of internal check is as efficient as possible having regard to the size and circumstances of the business, but he is not in close touch with the day-to-day operation of the system. It is clearly the responsibility of the management, assisted by their own internal audit staff (if they have one), to keep such control of their affairs as they consider necessary and in this way they will be helped by their more intimate knowledge of the character and private lives of their employees.

All the same, unearthing a fraud is very rewarding and one should certainly keep one's eyes open. It is very unsatisfactory to find that defalcation has been going on under one's nose without its being discovered.

Management Accounting

Management accounting means a system of accounting records arranged in such a way as to give full, continuous and reliable information for the purpose

of the day-to-day management of the business. It is an important advance on the system of accounting which only gives at long intervals less complete information which is often difficult to interpret.

Every audit programme has to be specially designed for the particular business concerned and it will be understood, therefore, that if a client's accounting system is set up in some particular way this will be reflected in the audit programme. There is nothing difficult or unusual in this. If, however, the accounting system is so advanced as to employ electronic machines with magnetic memories there will be correspondingly less documentary evidence available and possibly less evidence with which to check what records there are. This, of course, does not make our duties as auditors any easier or any less necessary.

The science of management accounting has been developed a great deal in recent years and there are now several firms of management consultants and many firms of chartered accountants have management consulting departments and associated firms to advise clients on accounting systems and business organization generally. If chartered accountants act both as auditors and management accountants they provide two different services. They are not alternative services and the auditor can and does contribute much which is outside the scope of the ordinary management accountant.

Final Audit Points

After hearing all that the clerk has to say about the draft accounts, the principal will usually list the more important final points to discuss with the client. These may include matters on which further evidence is needed in support of certain items, as well as consideration of alternative methods of presentation of the accounts. He may also wish to refer to the general financial position of the business including the adequacy or otherwise of working capital. He may also make suggestions for inclusion in the directors' report or chairman's statement which accompany the accounts when they are sent to the shareholders. Last, but I hope not least, he will discuss with the client his firm's charges for the services rendered during the year.

Do not forget to see that the closing entries have been put through the client's books before the principal is asked to sign the auditors' report which, it will be remembered, states that the accounts agree with the books!

When the accounts are to be printed it is a golden rule not to permit the firm's name to be printed under the auditors' report until a final proof has been checked and found to be correct. If, in order to save time, the principal agrees that the auditors' signature should be printed at an earlier stage, it is essential to limit the number of proofs and to prevent them being issued until one is satisfied that they are correct in all respects.

It was suggested that in this talk I should make

some reference to the time when responsibility for the accounts passes from the clerk to the principal. I must confess that I have never thought of any clear demarcation. This is mainly because I think all partners are responsible all the time for the work and conduct of their clerks. Just as a ship of the Royal

Navy is known by her boats, that is, by their cleanliness and the smart way in which they are handled, so a firm of accountants is known by its staff. The principal's reputation depends to a large extent on the impression which his staff give to the client and his employees.

Company Law Committee

The Association's Memorandum

We reproduce below extracts from the memorandum of The Association of Certified and Corporate Accountants to the Jenkins Committee on Company Law. A leading article on the memorandum appeared in last week's issue.

EXERCISE OF POWERS OF COMPANIES BY DIRECTORS AND DEGREE OF CONTROL RETAINED BY SHAREHOLDERS

(a) Fundamental changes in company's activities

18. The Council is of opinion that it is wrong for the directors of a company to introduce fundamental changes in the activities of a company without the approval of members.

Recommendation

That a new section be introduced requiring that the fundamental activities of a company be stated in the annual report of the directors and that no material change take place in these activities without the approval of the majority of members in general meeting.

(b) Disposal of undertaking and assets

19. It is common practice for companies to include in their objects clause power to sell and dispose of their undertaking or assets. In the view of the Council the exercise of this power should be subject to the approval of the general body of members, except where the company has a considerable holding in the purchasing company.

Recommendation

That a new section be introduced providing that a company be prohibited from selling or disposing of the whole or a material part of its undertaking or assets without first obtaining the approval of a majority of members in general meeting. There should be an exception to this requirement where the company holds at least a 75 per cent interest either directly or indirectly in the acquiring company.

(c) Issue of shares

20. The Council deprecates the issue of securities without their first being offered to members, particularly if such securities are issued for cash. It is appreciated that the acquisition of assets by the issue of securities is a proper means of expansion, neverthe-

less the Council is of opinion that any issue which may result in a change of control of the company should be subject to the approval of members.

Recommendation

That a new section be introduced requiring the approval of a majority of the members before the issue of shares or securities with conversion rights, or the giving of options to non-members.

6. DIRECTORS' DUTIES

(a) Should their duties be stricter and more clearly defined, and if so, in what respects?

23. The Council does not wish to comment on the wider aspects of this question. The Council notes, however, that Section 198 requires disclosure by a director of such matters relating to himself as may be necessary for the purposes of Sections 195, 196 and 197, whereas only that information required for purposes of Section 195 is required to be *in writing*. The Council sees no reason why the information required by Sections 196 and 197 should not also be in writing, especially as such information is required by auditors in the discharge of their duties.

24. The Council considers that a duty should be imposed upon directors and the secretary to give to the company in writing the information required to be contained in the Register of Directors and Secretaries.

25. The Council considers that in Section 196 (2) the estimated money value of any other benefits received otherwise than in cash should be more clearly defined by confining disclosure to such benefits received by directors as are chargeable to United Kingdom income tax.

Recommendations

(i) That in Section 198 (2) the words 'section one hundred and ninety-five' be deleted and the word 'sections' be substituted.

(ii) That Section 200 be expanded so that directors and the secretary shall give information to the company *in writing* to enable the company to comply with the section.

(iii) That the following words be added at the end of Section 196 (2) 'that are chargeable to United Kingdom income tax'.

(e) Should bodies corporate be allowed to be directors?

30. Although the practice of appointing bodies corporate as directors is not common, the Council takes the view that it is undesirable for the reason *inter alia* that bodies corporate cannot be made fully subject to the same sanctions of law as individuals.

Recommendation

That a section be introduced prohibiting a body corporate from being appointed a director of a company.

7. SHARES WITH RESTRICTED OR NO VOTING RIGHTS

31. The Council considers it to be a contradiction in terms that equity shares otherwise with equal rights and carrying equal risks in the capital of a company, should be issued without votes or with restricted voting rights. The Council is of opinion that this should be prohibited, either with or without requiring existing equity shares with any such disability to be given equivalence of voting rights within a specified period, say three years, after the passing of the Act.

Recommendation

That a section be introduced providing that all equity shares issued after an appointed day shall have votes and that all equity shares carrying equal risks shall have equal votes.

8. PROTECTION OF MINORITIES

Adequacy of existing remedies. Winding-up under 'just and equitable' rule Section 255 (2) of the Companies Act, 1948; the remedy afforded by Section 210

32. While recognizing the difficulties of affording protection to minority shareholders, the Council is of opinion that Section 210 has proved to be inadequate in practice. Although the tendency of the Courts in recent years has been to give this section a wider interpretation, the fact that it is linked closely with the winding-up provisions of the Act and imposes a serious burden upon an applicant seeking a remedy under the section, has for the most part rendered it ineffective. The Council suggests that Section 210 be amended on the lines of subsections (1), (2) and (3) of clause 201 of the Companies Bill (Northern Ireland), 1960, which are based on the Report of the Departmental Committee on Company Law Amendment in Northern Ireland, 1958 (Cmd. 393). The Council considers that this goes as far as is desirable to meet the equities of the case.

Recommendation

That Section 210 be amended on the lines of subsections (1), (2) and (3) of clause 201 of the Companies Bill (Northern Ireland), 1960.

21. ACCOUNTS

Do the accounts require the disclosure of sufficient information about the financial position of the company, including its subsidiaries and associated companies? Are all existing provisions necessary and useful in present-day conditions?

57. The Council is of opinion that in general the accounting provisions of the Companies Act, 1948, have worked reasonably well, but holds the view that disclosure of some additional information in the accounts and changes in the existing provisions as outlined below are now desirable.

(a) Revaluation of fixed assets and use of any resulting surplus

58. The accounting problems inseparable from the changing values of money have engaged the attention of the Council over the years. To whatever extent and for whatever reasons accountants are, for the most part, wedded to historic costs, the fact cannot be ignored that members and others are misled by asset figures as disclosed in many balance sheets. Members of companies cannot relate the earnings of the companies to the value of the assets and are at a disadvantage when approached by a bidder. These are matters to be deprecated. The main difficulty in suggesting that companies be required by law to disclose the current value of assets lies in the problem of deciding what is meant by the term 'value'. Many definitions, all of which are valid under different conditions and in different circumstances, can be advanced. In the recommendation made by the Council below, it is implied that the responsibility for computing and disclosing the current valuation of assets shall be placed upon the shoulders of directors. It is recognized that this is open to certain objections and cannot be regarded as an entirely satisfactory solution to the problem. At the same time, it is submitted that the proposal does go some appreciable way towards meeting the situation, and moreover, it is not inconsistent with the manner in which other company accounting problems have been dealt with in the past with, for the most part, satisfactory results.

Recommendation

That in the Eighth Schedule a sub-paragraph be added to paragraph 11 requiring a statement of the value at the date of the balance sheet which, in the opinion of the directors, may be attached to any asset or class of assets and the basis upon which such valuations have been made, e.g. insurance valuations, replacement costs, calculations from indices of costs, professional valuers' estimates. Provided that where in the opinion of directors the disclosure of a valuation of any asset or class of assets would be misleading or is impracticable, a statement to that effect should be made. For the purposes of this recommendation investments in associated companies and trade investments should be regarded as fixed assets.

(b) Share premium account

59. The Council does not wish to submit any recommendation under this heading.



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(c) Use of pre-acquisition profits of subsidiaries

60. In the operation of paragraph 15 (5) of the Eighth Schedule, a defect has been experienced in cases of reconstructions and amalgamations, where the shareholders remain substantially the same. In such circumstances revenue reserves, sometimes of substantial sums, have had to be 'frozen' as capital. The recommendation below is designed to remedy the defect.

Recommendation

That in the Eighth Schedule paragraph 15 (5), a proviso be added to the effect that where there is no substantial change in the ownership of a company as the result of a reconstruction or amalgamation, revenue reserves existing at the date of reconstruction or amalgamation need not be regarded as capital.

Description of reserves

61. The Council does not wish to submit any recommendation under this heading.

(e) Definition of profits

62. The Council does not wish to submit any recommendation under this heading.

(f) Exemption of banks, assurance, shipping companies from some of the accounting provisions of the Companies Act, 1948

63. The Council does not wish to comment.

Other Matters

64. Much of the wording of the Eighth Schedule is complex and some of the paragraphs need re-drafting in more comprehensible and consistent terms. Recommendation (i) below would, in the submission of the Council, simplify some of these accounting requirements.

65. Another defect in the Act is the apparent assumption that all assets fall under the headings of either 'Fixed' or 'Current'. The Council suggests that where an asset cannot appropriately be described as 'Fixed' or 'Current' it is made clear that it may be included separately, provided the nature of the asset is clearly stated.

66. Requirements in relation to 'Trade Investments' are contained in the Eighth Schedule, but no attempt is made in the Act to define a trade investment. The Council suggests the definition set out in recommendation (iii) below.

67. Paragraph 15 (4) of the Eighth Schedule prescribes the information to be given by a holding company when group accounts are not submitted. The disclosure of this information is unnecessary when the holding company is itself a wholly-owned subsidiary of another body corporate. The Council accordingly makes a recommendation designed to rectify this anomaly.

68. The practice of disclosing turnover for the year or period to which accounts relate is gradually becoming more prevalent and it is the opinion of the Council that the law should now require such disclosure since this would afford *inter alia* some measure of assistance to members in assessing the performance and management of a company. Where in the opinion of the directors it would be misleading or harmful to the company to make such disclosure, a note to this effect should be made on the accounts.

69. It is important, however, that a consistent basis of calculating turnover should be adopted from year to year and that any change should be the subject of a note on the accounts.

Recommendations

(i) That the wording of the Eighth Schedule be reviewed, particularly in paragraphs 5 and 15 (5), with a view to simplification and that the following amendments be made:

Paragraph 12 (1) (c) amend 'as United Kingdom income tax' to 'with United Kingdom taxation' and in the penultimate line, 'income tax' to 'taxation'.

Paragraph 12 (1) (d) amend 'provided' to 'set aside' (to avoid association with the term 'provision' defined in paragraph 27 of the Schedule).

(ii) That in the Eighth Schedule, paragraph 4, a proviso be inserted to the effect that where an asset cannot appropriately be described as 'Fixed' or 'Current', it may be included separately, provided the nature of the asset is clearly stated.

(iii) That a definition of the term 'Trade Investment' be included in Section 455 as 'an investment which is made primarily for the purpose of promoting the trade of the acquiring company not being an investment in a subsidiary company'.

(iv) That in the Eighth Schedule, paragraph 15 (4) a further proviso be added excluding from the operation of the paragraph a holding company which is itself a wholly-owned subsidiary of another body corporate.

(v) That a new section be introduced requiring the disclosure of turnover for the period covered by the accounts with such adjustment as may be necessary in the case of group accounts for inter-company transactions, provided that a holding company or wholly-owned subsidiary need not disclose its own turnover. Provided also that if in the opinion of the directors such disclosure would be misleading or harmful to the company disclosure need not be made but a note to this effect should be made on the accounts.

22. AUDIT**(a) Qualifications and appointment of auditors**

70. Some minor re-drafting is necessary in Section 159 since subsections (1) and (2) appear to conflict. The Council proposes that the words 'Subject to subsection (2) of this section' be added before 'Every company' in subsection (1) and in subsection (2) the words 'deemed to be' be added after 'shall be' on line 2.

71. The Council considers that the time has come to include in the Act the names of the four accountancy bodies recognized by the Board of Trade under Section 161 (1) (a). This would have the effect of bringing the Companies Act into line with other Acts which specify the qualifications required for the appointment of auditors.

72. Section 161 (2) leaves it open for an employee of an auditor to be an officer of a company. The Council is of opinion that this impinges upon the principle of independence of the auditor and should be prohibited.

Recommendations

(i) That Section 159, subsections (1) and (2) be amended on the lines of the suggestion in paragraph 70 above.

(ii) That Section 161 (1) (a) be replaced by a paragraph specifying the names of the four accountancy bodies now recognized by the Board of Trade under this section, i.e.

The Institute of Chartered Accountants in England and Wales,

The Institute of Chartered Accountants of Scotland,

The Association of Certified and Corporate Accountants,

The Institute of Chartered Accountants in Ireland,

together with a proviso to the effect that any of these bodies may be removed from and any other body of accountants established in the United Kingdom may be added to this provision by regulation requiring an affirmative resolution of both Houses of Parliament.

(iii) That Section 161 (2) be extended to prohibit the appointment or re-appointment as auditor of a company of any person who has in his employ an officer of the company.

(b) Duties and responsibilities of auditors

73. The heading to the Ninth Schedule has resulted in auditors' reports being unnecessarily long, and when auditors find it necessary to embody qualifications in their report, these tend to be obscured. This is a fundamental criticism, since such qualifications should be conspicuous in the report. So far as the auditors' report is concerned those examining the accounts of a company are interested to know whether the auditors are, in their opinion, satisfied that the requirements as set out in the schedule have been complied with. If so, a short and simple statement to that effect is adequate. If not, the respects in which they fall short of compliance are matters of vital interest.

74. The Council therefore suggests that the heading to the Ninth Schedule, i.e. 'Matters to be expressly stated in Auditors' Report' be deleted and the schedule be re-drafted so that the auditors' report may, in appropriate cases, be confined to a simple statement.

75. There seems to be doubt as to whether the term 'vouchers', as employed in Section 162 (3) includes such documents as title deeds to property. This should be made clear.

Recommendations

(i) That the heading to the Ninth Schedule be deleted and the schedule be re-drafted so as to enable auditors to report to members in short and simple terms whether or not they are satisfied that the requirements of the schedule have been fully complied with in relation to the company.

(ii) That in Section 162 (3) the words 'and vouchers' be amended to 'vouchers and other documents relating to the business'.

(c) Exemption of 'exempt' private companies from the provisions of Section 161 of the Companies Act, 1948

76. The Council is convinced that the exclusion of about five-sixths of companies now on the register from the provisions of Section 161 (1) is no longer justified. Whether or not the proposal in paragraphs 12 and 13 is adopted, i.e. that the distinction between exempt and non-exempt private companies is removed, the Council considers that all companies should be required to appoint auditors qualified as prescribed, and does not anticipate that the relatively few companies that have not yet appointed auditors qualified in accordance with the provisions of Section 161 (1) will experience any difficulties in making such appointments.

77. In the same way the Council is of opinion that a person who is in the employment of, or who employs, an officer or servant of the company should not be qualified for appointment as auditor, but the Council considers that a private company which is not obliged to file its accounts (see paragraph 14) should not be precluded from appointing as auditor a person who is a partner of an officer or servant of the company. The Council feels that the existing exception in favour of a partner of an officer or servant of the company has often been of benefit to small family businesses, and there is no evidence, so far as the Council is aware, that it has been misused.

Recommendations

(i) That the proviso to Section 161 (1) be repealed and that the proviso to Section 161 (2) be amended in accordance with the recommendations contained in paragraph 77 above.

(ii) That provision be made to preserve the existing rights of persons who have been appointed or re-appointed as auditors prior to an appointed day.

27. WINDING UP

(c) Preferential payments

98. The Council is of opinion that the priorities created by Section 319 are in particular and in general unfair and oppressive upon the unsecured creditors; that some of the preferential items have substantially increased in charge; that some originated when economic conditions were different from those prevailing today; that in many cases preferential claims consume the whole, or substantially the whole, of the net sum available for distribution, with the result that the unsecured creditors receive nothing. The

Council considers that the prior rights at present conferred by Section 319 should be reviewed and reduced, especially those appertaining to rates and taxes, and makes the following suggestions towards that end.

99. Under Section 30 of the Finance Act, 1952, certain contributions under the P.A.Y.E. regulations are preferential. The Council feels that it would be desirable to include all preferential provisions in one section of the Companies Act. The Council is of opinion that, since the Board of Inland Revenue has statutory power to follow up arrears of P.A.Y.E. contributions, the present period of twelve months specified in Section 30 of the Finance Act, 1952, should be reduced to six months and should be brought into the provisions of Section 319 of the Companies Act, 1948.

100. It is felt that the existing practice whereby third parties advance money for wages and salaries and then have the right to rank preferentially in a liquidation under the provisions of Section 319 (4) is unfair to the unsecured creditors. In many instances such claims take the whole or the bulk of the available assets. It is suggested that this right should be limited to a period of one month before the commencement of the winding-up.

Recommendations

(i) That the preferential period for rates under Section 319 (1) (a) (i) be limited to the half-year rate prior to the relevant date, plus the proportion of the current rate up to the relevant date.

(ii) That the preferential periods for taxes under Section 319 (1) (a) (ii) should be as follows:

(a) Income tax due for the twelve months prior to the relevant date (apportioned on a time basis if necessary) *or* at the option of the Board of Inland Revenue for the fiscal year ending on April 5th prior to the relevant date. The present practice of selecting the most favourable of a number of years should be discontinued.

(b) The profits tax for the period of twelve months prior to the relevant date (apportioned on a time basis if necessary) *or* at the option of the Board of Inland Revenue for the accounting period of twelve months to which the accounts of the company are made up next before the relevant date.

(iii) That under Section 319 (1) (a) (iii) the preferential period for purchase tax be limited to the quarter which ended prior to the relevant date and for the period from the end of that quarter up to the relevant date.

(iv) That Section 319 (1) (b) be amended to allow for the following two categories and their respective periods:

(a) Where wages and salaries are paid weekly or for terms of less than one month the period should be four weeks.

(b) Where wages and salaries are paid monthly or for longer terms the period should be two calendar months.

(v) That in view of difficulties arising from the definition of holiday pay in Section 319 (8) (b), the following amendments should be made to Section 319 (1) (d):

(a) That all holiday pay shall be deemed to accrue as from October 1st in any year.

(b) Where the normal period of holiday pay does not exceed twelve working days holiday pay should be deemed to accrue at the rate of one day for each complete month of service as from October 1st prior to the relevant date.

(c) Where the normal period of holiday pay is more than twelve working days then the accrual shall be increased proportionately.

(vi) That in view of the statutory regulations now in existence in respect of national insurance contributions specified in Section 319 (1) (e), preference for a six months' period prior to the relevant date be given.

(vii) That all preferential payments be detailed in a single section of the Act.

(viii) That the present period of twelve months specified under Section 30 of the Finance Act, 1952, be reduced to six months.

(ix) That the preferential rights conferred by Section 319 (4) upon third parties who have advanced moneys to pay wages and salaries should be limited to advances made within a period of one month before the commencement of the winding-up.

(e) General matters of administration

Personal liabilities of directors and restriction on future activities of directors of a company which has failed

105. The Council is of the opinion that there are no provisions in the Act which sufficiently restrict or prevent the abuse of limited liability. Section 332 refers only to cases where there has been an intent to defraud and should be amended to embrace actions of a reckless character in relation to the affairs of the company.

106. In bankruptcy the debtor whose assets are insufficient to pay 20s in the £ suffers certain disabilities until he obtains his discharge from the Court. The Council is of the opinion that directors of insolvent companies which go into liquidation should in some cases suffer a similar disability.

Recommendations

(i) That the provisions of Section 332 of the Companies Act be extended so as to include under subsection (1) the carrying on of a business recklessly in addition to carrying on with intent to defraud.

(ii) That the provisions of Section 332 be further extended so as to include a provision whereby the Court shall have power to order that a person referred to in subsections (1) and (3) of the section be prohibited from holding the office of a director in any other company for such period as the Court may direct.

Weekly Notes

Inland Revenue Concessions

AS announced in our last issue, the Board of Inland Revenue have issued a new pamphlet (No. 500 (1959)) setting out the extra-statutory concessions in operation at December 31st, 1959. The pamphlet gives the concessions contained in the appendix to the Inland Revenue report for the year ended March 31st, 1957, as amended by appendices to the two subsequent reports. The former concession in relation to payments of accumulations to children on attaining 21 or marrying has been rendered unnecessary by Section 20 (2) of the Finance Act, 1958. The abolition of corporation duty has likewise rendered unnecessary the exemption of temperance societies. The concession in relation to net relevant distributions, for profits tax purposes, appears in the new pamphlet, notwithstanding the announcement in the 1958-59 Inland Revenue report that it was withdrawn. Of course, it applies only to chargeable accounting periods falling before April 1958.

Insurance Association's Memorandum to Jenkins Committee

THE memorandum of the British Insurance Association to the Jenkins Committee on Company Law was published on Tuesday. The Association, which is representative of 250 insurance companies, feels that, in general, the existing company law has worked well.

It places great emphasis on the importance from 'the national and public point of view' of continuing the practice of hidden reserves in insurance company accounts; it takes the view that with banks and insurance companies the interests of depositors and policyholders outweigh those of shareholders. With regard to non-voting shares, the Association states that the right to vote by ordinary shareholders is fundamental and that only in exceptional circumstances can non-voting shares be justified. Companies should be prohibited from issuing new non-voting shares unless they already have such a class in issue. Some degree of statutory protection should be given to holders of these shares, and all holders should be informed of meetings and be entitled to attend them and speak.

The Association also recommends wider-based rights for debenture-holders; widening of the definition of what constitutes borrowing by a company; more information in prospectuses and in respect of trade investments in company accounts; simplification of the existing share transfer system, and greater control over the use of nominee shareholdings. The Association believes that it would not be to the advantage of shareholders generally if the authority

of directors were to be too severely restricted; where, however, there is a fundamental change in the activities of a company the shareholders should be consulted in advance.

Middle East Oil Price Cuts

THOUGH discounts on sales of crude petroleum from the Middle East have been common for some time, last week saw the first cut in official prices since February 1959. The first move was made by Esso Export which announced price cuts ranging from about 2½ per cent to 6 per cent on crude from Iran, Iraq, Kuwait, Qatar, and Saudi Arabia. This was followed a few days later by similar price cuts by the Royal Dutch-Shell Group.

While offers of Russian oil have been one of the factors leading to the weakness of the market, the slow rate of expansion of United States consumption and the rapid rate of increase in output, particularly in the Middle East, have probably been the main factors. World production this year is up by about 5 per cent but the increase in the Middle East has been of the order of 13 per cent. On the other hand, United States consumption rose by over 2 per cent in the first half of 1960 and imports of both crude oil and petroleum products into the U.S.A. are strictly controlled.

Some doubts have been expressed as to whether the price cuts so far made are sufficient to stabilize the position. Little information is available regarding the average size of the discounts which have been given in recent months, but the fact that the major oil companies have agreed to reduce prices for crude oil to India by 11 per cent has been taken to infer that the new world price may still be above market levels. No significant improvement in the situation is expected over the next few years, since the importance of independent oil production is tending to increase and new sources of production, e.g. in North Africa, are likely to cause still further over-production.

Steel Mill Activity

IN spite of falling demand for consumer durable goods and some anxiety regarding the future of the motor industry due to credit restrictions, the steel industry continues to show a high level of output and a satisfactory position as regards order books. The figures for production in July reflect the normal seasonal decline due to holidays, but at 391,400 ingot tons production was 22 per cent higher than a year ago against an increase in June of 20 per cent.

The Iron and Steel Board figures for deliveries of finished steel in the second quarter of the year show a rise in total home deliveries of 24 per cent compared with the second quarter of 1959. Deliveries to wire manufacturers increased by 48 per cent, to the building and construction engineering industries by 41 per cent, to the motor industry by 16 per cent, and to the mechanical engineering industry only

3 per cent. A part of these increased deliveries appears to have gone to building up consumer stocks and the Iron and Steel Board estimate that consumption of steel rose by only 12 per cent compared with the second quarter of 1959.

It is expected that the building up of stocks will continue for the rest of the year and on the basis of reports regarding the volume of orders in hand, that the steel industry will continue to show a high level

of activity. The motor industry had a bad month in July so far as sales of new cars were concerned but now appears to be more optimistic regarding the future, and there appears to be no proposal as yet for any cut-back in production in the autumn. In any case any fall in demand from motor or consumer durable manufacturers for steel sheet would be met by a fall in imports rather than a fall in demand for home produced steel.

This is My Life . . .

by An Industrious Accountant

CHAPTER 38

THE greatest pleasure about one's annual holiday is the immediate anticipation of joys to come. Hot and rather flustered after packing and locking up, I dreamed luxuriously of hot golden sands, of lounging with leisurely dignity in beach wear, all my office cares forgotten. In the event I am sitting with my foot up on a chair, looking out at the dreary drizzle of rain, and remembering Lord Byron's gloomy lines:

"The English summer, starting in July,
To end again in August."

The foot, by the way, is heavily bandaged. I cut it badly on a broken bottle just covered by the sand, and hobbled up the beach to the local doctor who tut-tutted considerably and inserted four stitches. Then, finding I was an accountant, he posed some queries about saving tax, while he prepared a drink for me. 'Very good for shock,' he explained benevolently.

I looked at his mild innocent eyes behind his spectacles, his grey curls a little too long over his collar, a typical unsophisticated country medico, the real backbone of the nation, and I felt benevolent in my turn. Fine types, these old G.P.s, the unsung heroes of the modern world. So I told him about chargeable expenses to reduce his assessable income.

The list was quite long when I had finished. There was a proportion of his house expenses, rents, rates, Schedule A and repairs, to cover his consulting rooms and study; there were liberal car expenses; I estimated for his maid's pay and keep and room, maintenance and uniform; next came telephone and postage and journals and subscriptions; finally, a special allowance for his wife for acting as part-time receptionist and book-keeper. It really was an impressive total and I reflected ruefully that poor long-suffering accountants in industry do extremely badly by comparison. Doctors probably pay practically nothing in tax!

My new client beamed on me gratefully. 'I have all those already, of course,' he murmured. 'And I

get something for an allowance to my daughter for acting as chauffeur occasionally . . . and of course for trips to London . . . business trips, you will appreciate.'

The mental picture of the guileless and saintly old physician had gone rather hazy. I blinked at him respectfully and accepted a full glass of amber liquid. 'From a grateful client in the R.A.F.' he said. 'Of course I don't include presents in kind in my assessment.' I scarcely heard him; I was choking, my eyes were bursting, my throat was on fire, an H-bomb must have gone off somewhere. The doctor sipped his own drink companionably. 'Moonshine, he made it himself . . . he's a Mayo man,' he said. 'Perhaps a little more water?'

As he dabbed on the mercurochrome, he asked me the present ruling as to tax on book royalties. 'A doctor's memoirs are always saleable, you know; witness Conan Doyle, Axel Munthe, Cronin. Is the *Jarvis v. Curtis Brown* case applicable?' I had to take hasty evasive action at this six-mark question.

Later he showed me his call-book, a black register where he recorded those special patients attended outside his National Health routine. The system was simplicity itself. Each month had its pages with the patients' names running vertically down the left-hand side, then thirty-one narrow vertical columns for the days, and a right-hand cash column for fees received. When he attended a patient, he put a tick opposite his name in the appropriate day's column, when he sent out a bill he crossed the tick; when the visit was paid for, he circled the cross. I noticed that many of the visits were apparently unpaid; others were only recorded as two or three guineas in total; surely this part of the practice should be more remunerative?

'Those fees are hardly worth returning for assessment,' he explained. 'The Inspector accepts a nominal annual figure.' His gaze was childlike in its simplicity as he assisted me to the door and called his daughter to run me home. I have since heard that he's a renowned poker player locally.

He was adamant in his refusal to accept any payment from me, explaining that it was the merest nothing, a pleasure always to talk to an expert on taxation. Nevertheless, I felt, as the local tavern-keeper parcelled up an appropriate present, as a gesture of gratitude, that I had learned something from my visit.

Reviews

Budgetary Control, Standard Costing and Factory Administration

Second edition, by S. R. CAVE, F.C.A., A.C.W.A. (Gee & Co (Publishers) Ltd, London. 26s net.)

The decade following the Second World War saw a rapid growth of interest in methods of cost collection and cost control, centred on the techniques of standard costing and variance analysis. Much published writing was contributed by those accountants who had achieved some success in applying these techniques, with the object of explaining to others the principles and practices involved.

Mr Cave's treatise, first published in 1955, was particularly successful in this field, and the present reprint brings it again to the notice of advanced students, and of those accountants in industry who are alert to the possibility of further refinement in the product of their skill.

This book is eminently practical (witness the treatment of parallel production at more than one factory, of time study methods, and of the method of valuing work in progress at year end), yet informed by a very precise appreciation of the theoretical basis of the methods propounded.

The brief earlier chapters on factory administration are not inspired by the enthusiasm which pervades the rest of the book and are probably best ignored. At one point Mr Cave, in common with other recent writers, appears to be opposing standard costing to job costing as alternative costing methods. Now that job costing as a method has disappeared from the terminology of the I.C.W.A., one deprecates its resurrection as a synonym for historical costing. In fact, the job as a unit of cost can be common to both standard and historical cost routines. The author has missed out the middle term of his comparison, as he does later in the otherwise careful discussion of scrap.

Scrap, as Mr Cave rightly defines it, is a physical fact; it is material that has become useless for the purpose intended. The cost of scrap, the author suggests, should be charged to overhead expense; then realizing that the cost of normal wastage is often included in a standard product cost, he draws the conclusion that wastage is not scrap. The dissociation of scrap as a physical fact from 'spoilage' as the act of producing defective work would have avoided this confusion. It is to the credit of Mr Cave's book, however, that his painstaking logic enables the reader in such ways to clarify his own ideas on points which are so often inadequately discussed.

The loading of overheads on to an overhead charge such as scrap is one of these points. Mr Cave says bluntly that the whole of the material, labour

and overhead on scrap is lost; but by careful reference back one deduces he is talking of variable overhead only. Even so, there is a large element of personal preference here, and one would have liked to know his reasons for this particular choice.

The relationship between cost collection and price fixing is a fruitful source of misunderstanding. Mr Cave pins down admirably the limitations of the accountant in this field, but later makes one shudder with the bold assertion that 'standard costing fixes the price of the article before it is sent to the customer'.

In brief, this is an exasperating book, but its blemishes do not mar the very vivid picture of a sound practical example of management accountancy.

Income Tax: Maintenance Relief and Agricultural Allowances

Second edition by F. E. CUTLER JONES, B.A., F.C.A. (Sweet & Maxwell Ltd, London. 32s 6d net.)

This new edition is marked by an extended discussion on the difference between a house and other buildings. The author reports that the Inland Revenue have refused maintenance relief on a factory on the ground that it was not a 'house'. Ordinarily, of course, they do not take this point; in the case cited the factory had been bought in a dilapidated condition and possibly this was the real reason why the claim was resisted. Another change in the new edition is a discussion on the special problems relating to tenants for life of settled estates, and the recent cases of *Pelly, Northumberland, Sutherland and Brougham and Vaux*, which have a considerable bearing on maintenance relief. Despite these additions, the book is actually shorter than the first edition, and the remarks in our review of that edition about the absence of brevity are to some extent met. For anyone making or likely to make a maintenance claim, the book is very good value.

A Guide to Management Accounting

Second edition, by H. W. BROAD, F.C.A., A.C.W.A., and K. S. CARMICHAEL, A.C.A. (H.F.L. (Publishers) Ltd, London. 18s net.)

Management accounting involves so many activities that to survey the field adequately in one small volume demands masterly lucidity and powers of condensation. These attributes the authors of this publication possess, and the first edition in 1957 received wide acclaim. The new edition, now published, deserves attention, even from those familiar with the earlier volume. The text has been extensively rewritten and expanded, particularly the section dealing with electronic computers, which is also supplemented by a glossary of computer terms; and there are many new and detailed examples of value to the accountant in industry. These include an O. & M. study of payroll procedures, a three-level break-even chart, and a long-term cash budget.

A little unfairly perhaps, the cumulative effect of this rich compendium of information is to make one wish for more. The students to whom the 'guide' is primarily addressed will be made aware, like the students of a famous public school, that 'such a thing as Greek exists', but for those who already have some facility in the subject, the book could be made incomparably more useful by some further elaboration of such matters as work study, the gearing and organization of subscribed capital, opportunity costs, and the discounted cash flow method of assessing the value of capital outlay. The publishers concerned do not normally conform to the British tradition of the 'slim volume' and here is a subject to which it is more than usually inappropriate.

One small personal criticism remains from the earlier edition. Having divided the first ninety pages of the book very helpfully into eight chapters, the authors have allowed the problems of 'Measurement and appreciation' (covering such diverse matters as variance analysis, review of investment, and inter-firm comparison) to sprawl over one chapter of thirty pages. This really needs clearer sub-analysis. It would be helpful also if the chapter heading 'Operating statements' could be reworded to show that the form rather than the substance of such statements was being discussed.

Increasing Profits in the Smaller Business: A Guide to Management Control

(Financial Management Series No. 3. British Institute of Management. 22s 6d net.)

It is not often that the reviewer comes across a book which is wholly admirable, but this book must achieve a quite exceptional merit rating on all grounds. It is the result of highly successful co-operation between (a) the Board of Trade who arranged for the B.I.M. to make an investigation into management accounting, cost control and the conservation of cash resources in the smaller business; (b) the B.I.M. itself which set up a steering committee with representatives of The Association of Certified and Corporate Accountants, The Institute of Cost and Works Accountants and the Stamp-Martin chair of accounting, in addition to its own representatives; and (c) the smaller businesses who co-operated in the venture and provided the basis of the seven informative case studies in the second part of the book. The result is an attractive and readable book exactly filling the long-recognized need for a practical guide to management accounting and cost control in the smaller business.

The text is brief, packed with wisdom derived from close observation of facts, and delightfully incisive. It has none of the 'woolliness' or the reluctance to recommend a course of action which is often the hall-mark of publications by institutes and other bodies. Yet it achieves a far-reaching study, which no manager, accountant, consultant or staff

member of a small business (or for that matter a large number of big businesses), is likely to read without absorbing at least half a dozen ideas for immediate experiment in a particular business. If this seems altogether too enthusiastic, reference to the summary of 'Essentials of financial control', which is well placed on pages 41 to 43 at the end of the text and just before the first case study, will justify the reviewer's praise.

The seven case studies are set out to a similar pattern, which assists comparison and does nothing to detract from the charm of each. Perhaps the most refreshing thing about them is the clear light they throw on the limitations of the different systems used. But nothing about the book is doctrinaire and the authors rightly give full credit to simple systems which work, while they are prepared to criticize excessive elaboration candidly. The systems described range from those which rely for their effectiveness on non-monetary statistical information – a form of management control which well deserves a pat on the back from some such source as this book – to those which use developed systems of standard costing and budgetary control. Where specimen forms are helpful they are lavishly provided, but they are never included unless they have a story to tell.

The researches carried out in order to make this book possible point to two morals: first, no business, however small, can afford to turn its back on management accounting, cost control and cash conservation; and, secondly, small businesses should spend particular attention on the cash problem but in practice appear to place it low on the list. Let the managers and their professional advisers read this book as a matter of urgency and then take steps to implement something on the lines shown at work in the cases quoted. And, so that the next generation of small businesses may be better supplied with managing and advising human material than the present one, let students throw out some of their turgid and opinionated textbooks on management accounting and let in the light with this new B.I.M. publication.

Promotion and Pay for Executives

by GEORGE COPEMAN, PH.D. (Business Publications in association with B. T. Batsford Ltd, London. 35s net.)

What is the greater attribute in a business career – the flashing brilliance of the hare or the long staying power of the tortoise? Dr Copeman has studied 'in depth' the careers of fifty hares and tortoises, tabulated their progress and from this factual material made a number of deductions as to how executives get to the top, how long it takes them and, when they get there, how long they stay on their pinnacles. He answers such leading questions as – What sort of annual increase in salary can a man of my age, position and income expect? What are the keys to good personal relations with superiors, colleagues and sub-

ordinates? How do I answer an advertisement for an outside post? and – How much is promotion affected by length of service?

This is eminently a book for the ambitious young man eager to get on but anxious not to put a foot wrong in the process. It should be read, too, by all established executives not actually disgruntled but, as P. G. Wodehouse said, very far from being grunted, who think that their rate of advancement is not commensurate with their demonstrable – or even demonstrated – ability. It should help them to appreciate that there are other considerations besides power and money to be derived from a satisfactory business career.

SHORTER NOTICES

FARM BUSINESS STATISTICS FOR SOUTH-EAST ENGLAND, by J. D. Sykes. Wye College. 2s 6d post free. No slices of cake; no little men in groups of assorted sizes; no coloured segments of circles; in fact, none of the playthings beloved of statisticians are to be found in this booklet. Only facts. This is an intensely compact analysis of production and finance compiled from the records of two hundred farms. The figures of capital and profit are worth the attention of the accountant, and comparison with actual cases might well prove salutary.

FARM RENTS, by D. R. Denman and V. F. Stewart. George Allen & Unwin Ltd. 27s 6d net. Based on a survey of farm rents by the Department of Estate Management of Cambridge University in 1957, this is a detailed and fascinating examination not only of rents but of their relationship to such matters as the size of farms, geographical location, type of farming, 'personality' of landlord, nature of services provided, and so on. The vast range of detail covered inevitably gives rise to problems. Over two years have elapsed between collecting the data and analysing and publishing the results; and in the meanwhile there have been considerable movements in farm rents. Subject to this reservation, much can be learned from the conclusions. It is interesting to note, for example, that in 1957 the average rent was less than £2 an acre, with dairy holdings in the highest category; Cheshire revealed the highest average, and Merioneth the lowest; and open market negotiated rents were 13.5 per cent higher than those awarded by arbitrators and independent valuers.

PRINCIPLES OF ACCOUNTING (Sixth edition), by Stanley W. Rowland, LL.B., F.C.A., revised by G. A. Holmes, F.C.A. The Donnington Press, St Albans; Cassell & Co Ltd, London. 27s 6d net. One of the purposes of this book, the author said in his introduction to the first edition in 1934, is to banish timidity and, despite the awesome prospect of having to master the six-hundred-odd pages of text and exercises which follow, the conscientious student, once he has done so, should stand in no fear of any accounting problem he may thereafter encounter.

ESTIMATING FOR PRINTERS. The British Federation of Master Printers, 11 Bedford Row, London, WC1. 20s to members; 25s non-members (including postage in United Kingdom). The Federation of Master Printers has performed a useful service in providing,

since 1916, guidance in the shape of a carefully documented book, *Estimating for Printers*. A revised edition has been published incorporating completely up-to-date material in a new format. Within its 218 pages there are new sections on cutting and creasing and on litho plate-making methods. That on letterpress machining has been rewritten to embrace pre-press techniques and equipment. Specimen estimates are shown comparing times for make-ready both by pre-press and by conventional methods. It is heavily charged with useful tables. This edition keeps pace with the rapidly increasing technological changes in the printing industry.

CLERICAL JOB GRADING AND MERIT RATING. Office Management Association Ltd. 35s net. The title is fully explanatory. The task of classifying clerical responsibilities and relating them to rewards has been carried out with great thoroughness and the results should be of real practical value to those who have to decide on promotions and pay rates for office workers in industry and commerce.

RECENT PUBLICATIONS

THE BRITISH ECONOMY, 1920-1957, by Professor A. J. Youngson. 272 pp. 9×6. 28s net. George Allen & Unwin Ltd, London.

RICARDO ON TAXATION, by Professor Carl S. Shoup. 285 pp. 9½×6½. 48s net. Columbia University Press, Oxford University Press, London.

'TAXATION' KEY TO INCOME TAX AND SURTAX, Budget Edition, 1960, edited by Percy F. Hughes. 223 pp. 8½×5½. Card covers. 11s net, postage 6d extra. Taxation Publishing Co Ltd, London.

THE LAW OF HIRE-PURCHASE, by David Wild. xxxii+236+11 pp. addendum. 9×6. 45s net, postage 1s 6d extra. Butterworth & Co (Publishers) Ltd, London.

BOOK-KEEPING AND ACCOUNTANCY FOR SOLICITORS, by P. Harrison and A. G. Hillman, F.A.C.C.A. ix+276 pp. 9×6. 47s 6d net. Postage 1s 6d extra. Butterworth & Co (Publishers) Ltd, London.

MODERN COMMERCE, A Course in Commerce for Advanced Students, sixth edition, by E. Sladen, B.COM., A.C.I.S. viii+325 pp. 7½×5. 12s 6d net. Sir Isaac Pitman & Sons Ltd, London.

BUSINESS HISTORY, by T. C. Barker, M.A., PH.D., R. H. Campbell, M.A., PH.D., and P. Mathias, M.A., with a section on Business Accounts by B. S. Yamey, B.COM. 36 pp. 8½×5½. Card covers. 5s net. 3s 6d post free to members of the Historical Association. The Historical Association, 56A Kennington Park Road, London, SE11.

THE ECONOMIC BACKGROUND TO INVESTMENT by H. B. Rose. xi+661 pp. 8½×5½. 40s net. Published for the Institute of Actuaries and the Faculty of Actuaries by Cambridge University Press, London.

OVERSEAS NEWSPAPERS AND PERIODICALS GUIDE BOOK, seventh edition, 1960. viii+464 pp. 9×6. 30s net. Publishing & Distributing Co Ltd, 177 Regent Street, London, W1.

INCOME TAXES IN THE COMMONWEALTH, Volume II, Parts III, IV and V, compiled by direction of the Board of Inland Revenue. pp. 1001-2085+appendices. 10×8. £4 4s net (including binder). Her Majesty's Stationery Office, London.

COST ACCOUNTING AND COSTING METHODS, by Harold J. Wheldon, B.COM.(LOND.), F.C.W.A., A.C.I.S. Tenth edition, completely revised by L. W. J. OWLER, F.C.I.S., F.H.A., A.C.W.A., and J. L. Brown, A.C.W.A., A.COMM.A. xiii+546 pp. 9×6. 26s net. Macdonald & Evans Ltd, London.

HOUSING FINANCE, edited by S. W. Magnus, B.A., Barrister-at-Law, and Laurence Tovell, A.S.A.A. xxvii+448 pp. 10×6½. £2 10s net. Charles Knight & Co Ltd, London.

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Non intelligunt homines quam magnum vectigal sit parsimonia

Men do not realize how great a revenue thrift is — Cicero

The table below sets out the amount of sum assured and bonuses in 1960 for a with profits policy of £1,000 according to the year in which the policy was started with the Society.

Policy effected in	Original sum assured	Endowment Assurance	Whole Life Assurance
		Maturity Value in 1960	Claim Value in 1960
1950	£ 1,000	1,241	1,271
1940	1,000	1,419	1,488
1930	1,000	1,726	1,864
1920	1,000	2,168	2,365
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Finance and Commerce

From South Africa

THE accounts featured in our reprint this week are those of Thos. Barlow & Sons Ltd, of South Africa, whose registered offices are in Johannesburg and to whose London representative, Mr J. S. Bennett, we are indebted for these accounts. Mr Bennett informs us that his chairman, Mr C. S. Barlow, is 'extremely interested' in the layout of accounts, and it is not inappropriate, therefore, that those of his company should be submitted for the interest and judgment of readers of this column. The accounts, of course, are prepared in accordance with local company law.

One thing lacking in this company's publication is any sort of description of the company and its business. Here and there in Mr Barlow's accompanying statement it is possible to glimpse something of the nature of the business, for instance: 'We acquired, as from July 1st, 1959, the total shareholding of Nagington Motors (Pty.) Ltd which company holds the Ford distributorship on the East Rand, and its profits for the three months to September, are included in the group's accounts.' And, 'The results of our diamond drilling business in the Federation are satisfactory,' says Mr Barlow, though 'the affairs of Barlow's Electrical Company are still not satisfactory.' Existing shareholders may be presumed to know what sort of business they have put their money into but the new-comer might well be at a disadvantage in not knowing quite what it is all about.

Value of Subsidiaries

As to the accounting aspect, there is interest in the manner of dealing with investments in subsidiaries. The directors' report points out that the board adopted a policy some years ago of writing up the book value of the company's share investments in subsidiaries to take some account of profits retained in those companies.

The last revision of values took place in 1952. But as the retained profits of subsidiaries, states the report, are included in full in the consolidated balance sheet of the group, the directors have decided to revert to their former procedure and to value the shares in subsidiaries in the holding company's accounts at cost.

For this purpose, £342,437 has been appropriated from capital reserve and a corresponding adjustment has been made in the comparative figures at September 30th, 1958. The balance of £69,500 standing

in the capital reserve account has been taken back to appropriation account and, with £100,000 added to it from the profits of the year under review, has been transferred to general reserve.

The reprint also includes, as an item of passing interest, a further example of an overseas auditors' report.

Ten-year Look

The accounts are accompanied by a ten-year summary of the consolidated figures. Under 'Profits' there are the figures for trading profit, for capital profit and sundry adjustments, for taxation, minority interests in profits, and for the total available group profit for the year. The next column gives the amounts written off assets and sundry appropriations.

Then comes the 'Allocation of Profits' showing preference and ordinary dividends and profits retained. Under 'Capital Employed' is shown new share capital and premiums, and shareholders' funds at the end of the year. Under 'Investment of Capital Employed' are the amounts under freehold properties less mortgages thereon at cost, other fixed assets less depreciation, and liquid assets less liabilities.

The next column gives 'Book Value per Ordinary Shares' and the summary ends with trading earnings per ordinary share after taxation, and dividend per ordinary share.

General Electric

THERE is a sundry item of £500,000 not shown in the accounts of The General Electric Co Ltd for the year to March 31st last, which reminds us of the reference we made a few issues ago to triennial or even quinquennial profits. 'Not shown' is appropriate here, for the £500,000 has been deducted before the statement in the accounts of the profit figure which appears at £4,530,766 compared with £3,950,079.

The £500,000 is disclosed in the directors' report which says: 'It is still not possible at this stage to make any accurate forecast of the financial outcome of the Hunterston atomic power contract. The initial costs and research expenditure to date have been written off and, in addition, it has been considered prudent to provide a further £500,000 out of the profits of the year.'

There is also a reference to it by the chairman, Sir Leslie Gamage, in his review. He says: 'I would emphasize that the profit figure has been struck after writing off all expenditure on research and development and making a further provision of £500,000 in regard to the atomic energy contract at Hunterston.'

It is true the notes on the accounts show that the profit on trading was arrived at after charging, among other items, £1,590,984, against £1,062,330, for 'Provision for unascertained liabilities', but this would hardly seem to link up adequately with the specific £500,000.

Trading profits, after charging all expenses, including the items set out below

	1959, £	1958, £
Interest paid:		
Debentures	7,493	8,302
Fixed Loans	1,945	2,053
Bank and other borrowings	93,367	114,969
	102,805	125,324
Depreciation and amortisation of fixed assets	175,181	160,700
Net loss on sale of fixed assets	1,771	11,560
Expenses re acquisition of shares in subsidiary company	530	4,479

Dividends received:
Trade investments 50,084
Other 3,250
Sundry interest received 53,334
Provisions created in prior years in excess of present requirements: 19,842
Now written back 3,260

Net profit for the year, before taxation 763,890
Less: Taxation 224,561
Net profit for the year, after taxation 539,329
Deduct interest of minority shareholders 4,113

Net profit, after taxation, appertaining to the group 535,216
Less: Loss on sale of subsidiary company 6,991
Loss on sale of freehold property in subsidiary company —
Net amount written off trade investment 4,945
Provision for future taxation —
Pre-acquisition profits included in 1958 profit 11,936

Add: Unappropriated group profits at 30th September, 1958 979,615
Adjustment of taxation provided in previous years 21,260
Reserves written back:
In parent company 69,500
In subsidiaries —
Unappropriated profits of Thos. Barlow & Sons (Rhodesia) Ltd. —
(Appertaining to parent company's interest prior to 1st October, 1957).
Adjustment on sale of shares in subsidiary company 1,070,375

Available for appropriation 1,593,655
Appropriated as follows:
Dividends of parent company as shown in its accounts 342,898
Additions to general reserves 209,500

Profits unappropriated at 30th September, 1959 £1,041,257

Trading profits, after charging all expenses, including the items set out below

	1959, £	1958, £
Interest paid:		
Subsidiary companies	9,771	9,145
Bank and other borrowings	70,018	81,261
	79,789	90,406
Less: Interest received from subsidiary companies	56,673	70,460
Depreciation of fixed assets	23,116	19,946
Expenses re acquisition of shares in a subsidiary company	25,852	21,503
	530	4,479

Dividends received:
Subsidiary companies 234,148
Trade investments 50,084
Other 3,250
Sundry interest received 287,482
Profit on sale of fixed assets 4,173

Net profit for the year before taxation 524,864
Less: Taxation 73,500
Net profit for the year after taxation 451,364
Less: Net amount written off trade investment 5,084

Add: Unappropriated profits at 30th September, 1958 425,443
Adjustment of taxation provided in previous years 3,620
Capital reserve—balances written back 69,500
Adjustment on sale of shares in subsidiary company —

Available for appropriation 944,843
Appropriated as follows:
Dividends for the year—
On 6 per cent preference shares 22,500
On ordinary shares—
1s. 3d. per share declared 15th May, 1959 (1958, 1s. 6d.) 160,199
1s. 3d. per share declared 8th December, 1959 (1958, 1s. 6d.) 160,199

Transfer to general reserve 342,898
Unappropriated profits at 30th September, 1959 169,500

Profits unappropriated at 30th September, 1959 £432,445

CITY NOTES

THE stock-market, it is often said, is never more right than when it appears wrong. Present political and economic conditions are hardly such as to inspire any great confidence, yet the industrial equity share sections of the market are being strongly supported. International political considerations now seem to have little impact on share markets as a whole. Investors have learned to live on the tight-rope of international power politics, and overseas uncertainties only serve to emphasize the wisdom of investing in home industry.

So far as the home economic outlook is concerned there are obvious hopes that current negotiations will bring the United Kingdom into closer contact with the European Common Market. Beyond this there is the broad assumption that the credit squeeze will be lifted before long – although this assumption can only go so far as the possibility of a marginal reduction in Bank rate which the equity market at least now seems to have discounted.

The latest trade figures hardly suggest that credit stringency is exactly biting hard. The trade gap was only slightly narrowed in July but this step in the right direction is naturally viewed, in the present atmosphere of optimism, as the forerunner of better results to come.

In the share market itself there is now an acute shortage of supplies. Even in the recognized leading shares it is sometimes difficult to buy substantial lines. Higher prices fail to bring shares on to the market and profits seem only to be taken with a view to reinvestment elsewhere in the industrial section.

RATES AND PRICES

Closing prices, Wednesday, August 17th, 1960

Tax Reserve Certificates: interest rate (29.6.60) $3\frac{1}{4}\%$

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	$4\frac{1}{2}\%$
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	$5\frac{1}{2}\%$	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

June 10	£4 12s 1.79d%	July 15	£5 10s 2.49d%
June 17	£4 13s 7.34d%	July 22	£5 9s 9.27d%
June 24	£5 13s 7.40d%	July 29	£5 10s 10.96d%
July 1	£5 13s 6.14d%	Aug. 5	£5 11s 7.17d%
July 8	£5 13s 3.06d%	Aug. 12	£5 11s 5.85d%

Money Rates

Day to day	$4\frac{3}{8}$ – $5\frac{1}{4}\%$	Bank Bills	
7 days	5 – $5\frac{1}{8}\%$	2 months	$5\frac{3}{8}$ – $5\frac{3}{4}\%$
Fine Trade Bills		3 months	$5\frac{3}{8}$ – $5\frac{3}{4}\%$
3 months	$6\frac{1}{2}$ – 7%	4 months	$5\frac{3}{8}$ – $5\frac{3}{4}\%$
4 months	$6\frac{1}{2}$ – 7%	6 months	$5\frac{3}{8}$ – $5\frac{3}{4}\%$
6 months	$6\frac{1}{2}$ – $7\frac{1}{4}\%$		

Foreign Exchanges

New York	2.81– $\frac{1}{16}$	Frankfurt	11.71 $\frac{1}{8}$ – $\frac{7}{8}$
Montreal	2.71 $\frac{1}{16}$ – $\frac{1}{8}$	Milan	1743 $\frac{1}{8}$ – $\frac{7}{8}$
Amsterdam	10.59 $\frac{1}{4}$ – $\frac{1}{2}$	Oslo	20.03 $\frac{1}{8}$ – $\frac{1}{4}$
Brussels	140.64 $\frac{1}{2}$ – $65\frac{1}{8}$	Paris	13.76 $\frac{1}{8}$ – $\frac{1}{4}$
Copenhagen	19.36 $\frac{1}{8}$ – $\frac{1}{4}$	Zürich	12.13 $\frac{1}{8}$ – $\frac{1}{4}$

Gilt-edged

Consols $2\frac{1}{2}\%$	44 $\frac{1}{2}$	Funding 4% 60–90	87 $\frac{1}{2}$
Consols 4%	66 $\frac{1}{8}$	Savings $2\frac{1}{2}\%$ 64–67	82 $\frac{1}{8}$
War Loan $3\frac{1}{2}\%$	60 $\frac{1}{4}$	Savings 3% 55–65	88
Conversion $3\frac{1}{2}\%$	59 $\frac{1}{8}$	Savings 3% 60–70	78 $\frac{3}{8}$
Conversion $3\frac{1}{2}\%$ 1969	83 $\frac{1}{8}$	Savings 3% 65–75	71
Exchequer $5\frac{1}{2}\%$ 1966	97 $\frac{1}{2}$ xd	Treasury $2\frac{1}{2}\%$	43 $\frac{1}{8}$
Funding 3% 66–68	81 $\frac{1}{8}$	Treasury $3\frac{1}{2}\%$ 77–80	72
Funding 3% 59–69	81 $\frac{1}{8}$	Treasury $3\frac{1}{2}\%$ 79–81	70 $\frac{1}{2}$
Funding $3\frac{1}{2}\%$ 99–04	64 $\frac{1}{8}$	Victory 4%	91 $\frac{1}{2}$ xd

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Private Treatment in Illness

SIR, – Many people prefer to be private patients in times of illness. This is shown by the amazing growth of provident associations like the British United Provident Association, whose membership has increased from about 65,000 to 800,000 in twelve years. A big factor in this growth has been group membership and the more favourable terms it offers.

B.U.P.A. has for some time been operating groups for members of The Institute of Chartered Accountants in England and Wales in the following areas:

Bedford, Birmingham, Bristol and West of England, East Anglia, Grimsby and North Lincolnshire, Hull, East Yorkshire and Lincolnshire, Leicestershire and Northamptonshire, Liverpool, London, Manchester, North Yorkshire and South Durham, Northern, Nottingham, South Wales and Monmouthshire, York.

Now arrangements have been made to add a central group for the benefit of those members of the Institute who are not eligible to join any of the existing groups. Thus, in future, any member who wishes to do so will have the opportunity of joining at, or transferring to, group rates of subscription, which are considerably lower than those payable by individual subscribers.

B.U.P.A. is non-profit-making. It was formed in 1947 under the presidency of Viscount Nuffield to assist subscribers and their dependants with the cost of private treatment in illness. Registration with B.U.P.A. relieves anxiety by providing the means to have private treatment at a convenient time under the most favourable conditions. B.U.P.A. provides a high degree of continuity of cover, irrespective of age,

once a person has been enrolled. This policy has been made possible, despite a consistently high claims rate of about 85 per cent, by the underlying financial strength of B.U.P.A., which apart from investment appreciation, has reserves approaching £1 million.

There are five scales of benefit designed to meet the varying needs of different people in different parts of the United Kingdom. A member can secure full benefit entitlement for his wife and children for a comparatively small addition to his basic subscription. The benefits are available whilst a subscriber or his dependants are in the United Kingdom or temporarily abroad on business or holiday; further, if treatment is received in hospital under the National Health Service, the subscriber is eligible for a special grant for other expenses connected with the illness, such as convalescence. Cover against the fees of a private general practitioner can be secured by the payment of an additional subscription.

Yours faithfully,

E. F. WEBB,
General Manager,

BRITISH UNITED PROVIDENT ASSOCIATION.

*Provident House,
Essex Street, London, WC2.*

Practitioners and the Revenue

SIR, - I endorse generally Mr Goodfellow's remarks in your issue of August 6th, and feel that relationships between practitioners and the Revenue, particularly in the country districts, would be much improved if the Institute would take a hand in matters both from the point of view of representations to the Revenue and prodding the sluggards in the profession.

Since, however, the country practitioner is virtually unrepresented on the Council of the Institute we can expect as much progress on this matter as there has been over the last fifty years on the question of registration.

Yours faithfully,

Chelmsford.

ROBERT BARLOW.

Basic Systems Simplification

SIR, - While applauding the strictly pragmatic approach towards accountancy records adopted by Mr R. G. A. Boland in his article 'Basic systems simplification' (August 13th issue), I would like to hear his comments on certain disadvantages which seem evident. I am sure Mr Boland would agree that journals and ledgers should be eliminated unless a clear case can be advanced for their retention. He mentions the need for analysis as justifying the use of journals, yet in fact it is physically possible for the analysis to wait until the transaction is recorded in the cash-book, for credit as well as for cash transactions. Under Mr Boland's system the debtors' and creditors' ledgers are rightly avoided, but the purpose served by the debtors' ledger, namely,

to keep track of slow-paying customers, is scarcely achieved by moral exhortation to pay against invoices. Under conditions of dear money further incentives are needed such as cash discounts. Moreover, whether we iconoclasts like it or not, management occasionally likes to consult a customer's account to ascertain not only the credit record but also whether there has been any marked increase or decrease of business. An interesting topic which Mr Boland should have developed is the order in which the paid copy invoices ought to be filed. The three principal methods of filing paid copy invoices are:

(1) Cash-book order.

(2) By months in alphabetical customers order.

(3) In alphabetical customers order as from the beginning of the financial year.

Even though refileing is required every month, method (3) is the one which should satisfy management and which should satisfy the auditor who wishes to ascertain whether debtor balances at the beginning of the financial year have in fact been received.

One of the least convincing parts of Mr Boland's article is his promotion of the invoice as the main method of advising the debtor of the amount outstanding and his undervaluing the merits of statements of account. The advantages of statements of account as opposed to exclusive reliance on invoices are:

(1) Old standing balances are brought to the notice of the customer every month thus increasing the chances of being received.

(2) A clearer indication is provided of the calculation of cash discounts, which can be calculated in total instead of individually.

(3) A clearer record is provided of over- and under-receivables in relation to individual invoices, or even of amounts received which are not related to any invoice.

(4) The customer receives a statement of the net amount owing, so that the chances of confusion are reduced.

The importance of the copy statement of account has been underrated in the past and certainly the audit of debtors' balances is assisted if the auditor is told which balances have been notified by a statement of account and which have not. Mr Boland's adjustments journal entries to deal with discounts and overpayments would not be satisfactory in that more work for the staff and less clarity for the customer would be the twin results.

The payment of salaries by bank transfer is preferable to payment by cheque especially to audit staff in that a special journey to the office is avoided in order to collect the cheque. An audit clerk with a bank account of his own is likely to prove more capable of coping with the bank accounts of clients than one who has not.

Yours faithfully,

London, W1.

P. L. GRIFFITHS.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

H. J. Rorke Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)
July 13th, 1960
(Before Mr Justice Cross)

Income tax - Open cast coal-mining - One year leases - Payment for right of entry - Payment for diminution of value - Legal and advisory expenses - Whether income or capital expenditure - Income Tax Act, 1952, Section 137 (a) (f).

The appellant company carried on the business of open cast coal-mining and it entered into three leases with farmers for the purpose of working coal under portions of their land. The leases were for one year and were subject to the payment of a royalty. On the signing of each lease the company paid £250 for the right to enter on the land and another £250 as compensation for the diminution of the value of the land. The provisions in each lease were similar to those commonly found in other leases entered into by the company and in other leases entered into by other persons carrying on open cast coal-mining.

It was contended by the company that the sums of £250 were normal and recurrent payments, and were payments on revenue account for trading stock. It was contended by the respondents that the sums were paid, not for trading stock, but for rights to enable the company to obtain trading stock, and were capital payments. The Special Commissioners decided that the £250 paid for the right of entry was in each case a capital item, and that the other sums of £250 were paid on revenue account and were deductible.

Held: both items were payments for the right to obtain trading stock and were therefore not deductible.

C.I.R. v. J. B. Hodge & Co (Glasgow) Ltd

In the Court of Session (Inner House)
July 14th, 1960

(Before the LORD PRESIDENT (LORD CLYDE), LORD CARMONT, LORD SORN and LORD GUTHRIE)

Profits tax - Non-distribution relief - Transfer of business to another company for shares - Thereafter a holding company - Winding-up - Election for distribution charge on transferee company - Effect of election - Finance Act, 1937, Section 19 (4) - Finance Act, 1947, Sections 30 (2), (3); 35 (1) (c); 36 (4); 43 (1).

The respondent company carried on the business of selling and servicing earth-moving machinery until April 5th, 1950. On that day it sold the business to a London company and the consideration was substantially the whole of the shares in that company.

Thereafter the company was an investment-holding company till March 18th, 1955, when it went into liquidation. The company's accounting periods ended on November 1st. The liquidator distributed the assets, and their value exceeded the company's paid-up capital, and a distribution charge was made on the company for the chargeable accounting period from November 1st, 1954, to the date of liquidation. On September 25th, 1950, the company and the London company had given notice under Section 36 (4) of the Finance Act, 1947, for any distribution charges to be made on the London company.

It was contended for the appellant company (1) that the company was not carrying on a business chargeable to profits tax during the period between November 1st, 1954, and March 18th, 1955; (2) that no distribution was made for that period; (3) after April 5th, 1950, the company carried on a business different from the business it had carried on before, and that non-distribution relief given for the former business could not be taken into account for the purpose of calculating the distribution charge under appeal; (4) that the effect of the election notice under Section 36 (4) of the Finance Act, 1947, was to free the appellant company of liability to distribution charges. The Special Commissioners decided in favour of the company on grounds (3) and (4).

Held: the company was exempt from distribution charges because of the election notice under Section 36 (4) of the Finance Act, 1947.

Amis v. Colls

In the High Court of Justice (Chancery Division)
July 18th, 1960
(Before Mr Justice Cross)

Income tax - Additional assessments - Whether fraud or wilful default - Income Tax Act, 1952, Section 47.

Additional assessments for 1940-41 and 1955-56 were made on the appellant, who carried on business as a jeweller, and assessments were made in respect of the profits of her business and also in respect of deposit interest. The assessments were made more than six years after the fiscal years to which the respective assessments related.

The appellant appealed to the General Commissioners, and the Inspector adduced evidence in support of his contention that fraud or wilful default had been committed by or on behalf of the appellant, so that the proviso to Section 47 (1) of the Income Tax Act, 1952, was applicable. He produced statements, which were largely based on evidence supplied by the appellant and her former accountant, in order to show that the appellant's capital had grown steadily between 1938 and 1945. He also showed that deposit interest had been understated for 1943-44 and 1944-45. The Inspector was cross-examined on behalf of the appellant, and in the course of the cross-examination it appeared that the appellant had had another bank account in London from 1941 to 1948 in which sums totalling about £3,000 had been paid, and had

earned deposit interest. The appellant's affairs had been under investigation since 1950, but this account was not disclosed until the appeal hearing. The appellant did not give evidence. The General Commissioners decided that there had been fraud or wilful default on the part of the appellant.

Held: there was evidence upon which the General Commissioners could reasonably arrive at their decision.

**Centlon Finance Co Ltd v. Ellwood
Tableau Holdings Ltd v. Williams**

In the High Court of Justice (Chancery Division)
July 29th, 1960

(Before Mr Justice Cross)

Income tax - Dividend - Paid out of capital surplus - To share-dealing company - Whether trade receipts - Discovery - Settlement of appeals by agreement - Whether additional assessment possible on same issue - Taxes Management Act, 1880, Section 57 (10) - Income Tax Act, 1952, Sections 41, 47, 50, 510.

The first appellant which carried on a share-dealing business, bought, on October 20th, 1953, all the shares in another company. This company had sold some of its capital assets for cash, and the money received was a capital receipt in its hands. On October 23rd, 1953, the subsidiary company declared a capital distribution of £25,000, and that sum was paid to the appellant on November 2nd, 1953. On December 4th, 1953, the appellant company sold its shares in the other company for cash.

On November 19th, 1954, Schedule D assessments were made on the appellant company for 1953-54 and 1954-55. Notice of appeal was given three days later, and the stated ground of appeal was that accounts relevant to those years had not yet been prepared. On July 1st, 1955, the accounts were sent to the Inspector together with a tax computation showing £33,200 of dividends from United Kingdom companies deducted. This sum was made up of the £25,000 and a capital distribution of £8,200 received from another company, Abraville Securities Ltd. In response to his request details of the £33,200 were given to the Inspector on July 27th, 1955, and on August 8th he agreed the computation and amended the notices of assessment. On November 24th he sent a notice of assessment under Schedule D for 1955-56, which was also in accord with the agreed figure of profit. On June 18th, 1956, a new Inspector informed the appellant company's accountants that in his view the £25,000 and the £8,200 were trading receipts, and he caused additional assessments to be made for 1953-54 to 1955-56 and a first assessment for 1956-57. After these assessments had been made, the profit of Abraville Securities Ltd out of which the £8,200 had been paid, was assessed, and the Inspector abandoned his claim in respect of that sum.

The Special Commissioners heard appeals against the assessments on the appellant, and they decided (1) that the £25,000 should have been included in

the appellant's Case I assessment, (2) that for 1953-54 to 1955-56 the new Inspector had 'discovered' for the purposes of Section 41 of the Income Tax Act, 1952, (3) that for 1953-54 and 1954-55 Section 510 prevented additional assessments being made.

Held: (1) that the £25,000 was not a trade receipt of the appellant's business, (2) that the additional assessments for 1953-54 and 1954-55 were invalid in any event, as there had been a settlement of the appeals for those years under Section 510, and in the circumstances Section 41 was prevented from operating by Section 50 (2).

The facts in the second case were materially the same except that the notice of appeal was given specifically against the inclusion of the capital distributions in question.

Barclays Bank Ltd (Cheetham) v. Naylor
In the High Court of Justice (Chancery Division)

July 21st, 1960

(Before Mr Justice Cross)

Income tax - Repayment - Employment - Children's education scheme - Trust fund - Payment into children's account - Deduction of tax - Whether an annual payment - Income Tax Act, 1956, Sections 169, 170.

Imperial Chemical Industries Ltd set up a scheme for providing assistance in the education of the children of members of the staff of the company and associated companies serving abroad. I.C.I. covenanted to pay £27,000 a year, less tax, for seven years, to trustees of a trust established for the purpose, and the trustees were empowered to apply the money at their discretion to or for the maintenance, education or other benefit of persons whose names were in a list as varied from time to time.

The name of Michael Cheetham, whose father was employed by I.C.I. (China) Ltd, was included in the list, and in April 1957 the trustees decided that the sum to be paid in respect of Michael was £82 11s 3d. An account was opened for Michael at the Millbank branch of Barclays Bank Ltd, and in the same month £143 11s 8d was credited to the account in respect of fees for the autumn term, 1956, and the spring term, 1957. This sum was made up of £82 11s 3d, the payment by the trust, and £61 0s 5d, a loan from I.C.I. Ltd. The amount of this loan was the amount of income tax at the standard rate, which had been deducted from the sum paid by the trustees.

The bank, as agent for Michael, claimed repayment of the £61 0s 5d. The claim was disallowed by the Inspector of Taxes and the bank appealed to the Special Commissioners who decided that the deed of covenant between I.C.I. Ltd and the bank was not entered into unconditionally; that the payments thereout, so far as they were utilized for education grants, were not annual payments; and that the claim for repayment of tax failed.

Held: the payments of £27,000 a year were annual payments for income tax purposes. The claim for repayment of tax was accordingly valid.

A monthly feature designed to keep readers – whether in practice or in commerce – abreast of the latest developments in the field of office equipment.

New Off

Letter-sorting Machine

ORGANIZATIONS who handle large quantities of incoming or outgoing letters could usefully avail themselves of the *Keytronic Mail Sorter* – an American machine now available in this country. Operated from an alpha-numerical keyboard set out in a standard format, it sorts up to fifty categories at a time.

The machine works with sealed envelopes. There are two models, one accepting letters with size limits from $2\frac{3}{4}$ in. by 4 in. to $4\frac{1}{4}$ in. by 11 in.; the other, 3 in. by 5 in. to 6 in. by 11 in. Thickness limitation is $\frac{1}{8}$ in. in each case. Either model can be supplied with thirty, forty-four or fifty bins, each of which holds about 180 pieces.

For sorting, the letters are stood on end and packed one behind the other on a yard-long feed tray. The machine feeds the first into reading position. The operator, who sits on a stool at one end of the sorter (which in outline is similar to a breast-high bookcase with bins arranged in tiers), determines the letter's destination by tapping the appropriate code on the keyboard. As it is carried off by the machine, another is fed into its place. Sorting speed is therefore chiefly determined by the operator's skill, though this is said to be easily acquired.

The machine cannot mutilate the letters, even when they are already in poor condition, the makers say.

K. S. Paul (Printing Machinery) Ltd, Great Western Trading Estate, Park Royal Road, London, NW10.

Telescopic Card File

ONE of the most difficult tasks confronting an office manager is to estimate file storage requirements. Over-buying leads to wastage of space and equipment; an under-estimate results in losses and muddles.

Both these traps are neatly avoided by the *Extensi-Pull*, a new file-cum-reference table for machine punched, edge punched or ordinary index cards of

any standard size. It is made in such a way that the user can start with a single unit and add smaller or full-sized extensions to either end of it as occasion demands.

The basic design is simple but efficient. The unit comprises a stout framework of tubular steel on which card trays are suspended side by side. To extend the installation, the user hooks a small additional card cradle or another complete unit on to either end of the parent one. These extensions can be added *ad infinitum*.

For users of eighty-column punched cards the design of the trays provides a further aid to efficiency. When removed from the frame they can be placed in a standing, mobile, or wall-hanging frame where they form a sorter rack.

When not in use, the cards are protected by a Waverite cover which forms a rigid writing surface, thus providing an extra desk. The cover drops out of sight at the back of the unit when it is open.

Punched Card Accessories Ltd, Abbey House, Victoria Street, London, SW1.

Economical Suspended Filing

ECONOMY is the outstanding feature of the new *Matthews* suspended filing system. It is designed for use in any standard-size cabinet or desk drawer.

The system comprises strong manilla pockets linked concertina-fashion and folded over flat metal bars finished in grey. Index labels come in self-adhesive glazed sheets which, after typing, are separated and the labels fixed in position on the bars by finger pressure.

Pockets, made in quarto and foolscap sizes, are sold in packages of fifty, complete with label sheets. For modern file cabinets or drawers with built-in cradles or high sides, no additional equipment is needed. For older cabinets, a metal framework is provided.

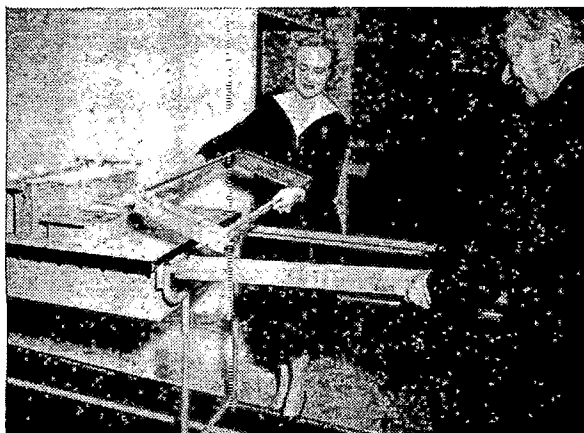
Prices: Foolscap files £3 2s 6d for fifty; Quarto £2 18s 4d for fifty. Framework: 17s 8d foolscap; 16s quarto.

D. Matthews & Son Ltd, 63 Dale Street, Liverpool.

Office Furniture in Wood

THE opening of a new City showroom gives Londoners, for the first time, an opportunity for personal inspection of the range of reasonably priced *Burndale* wooden office furniture. Large local storage space will, the company hopes, enable them to supply items almost immediately from stock.

The range includes desks, tables, seating and unit desking. The latter, and most recent addition to the company's lines, is made in oak or mahogany finish, fadelessly stained and finished with wear-resistant polish. A wide selection of units includes desk tops in several sizes including patterns with a machine well, cupboards, bookcases with glass or wooden sliding



Extensi-Pull File.

Equipment

doors, and desk pedestals with several drawer sizes and arrangements.

Unit desk tops have fixing rails running along the entire under surface, so that pedestals can be attached at any point. Legs, which are tapered, polished black and finished with brass ferrules, are adjustable to give slight height variations or compensate for uneven floors.

Typical prices are £8 16s for a 60×30 in. desk top; £11 1s for a bookcase with sliding glass doors and one shelf; and £15 6s for a pedestal with a quarto-width filing drawer and 24-in. back-to-front depth and a 5-in. deep box drawer.

Burndale Office Furniture Co Ltd, 57-59 Clifton Street, London, EC2.

Fast, Automatic Collation

COMPACTNESS, mobility and automatic accuracy control are three attractive features of the 650 *Accra-Feed* collator, shown in this country for the first time at the Birmingham Business Efficiency Exhibition. The machine assembles up to fifty sets of one hundred sheets each in a single operation. Yet it occupies no more floor space than a small office table and, being mounted on castors, can be moved anywhere.

The machine collates by automatically inserting sheets into fifty pockets arranged round the perimeter of a vertically revolving wheel. It operates equally efficiently (though no faster) if less than fifty sets are required.

To feed the collator, the operator counts out the first stack in the set; roughly estimates, by eye or callipers, the other stacks. He interleaves each stack with a control card, places the collected pile on the collator feed table, and sets a counter according to the number of sets required.

Thereafter, the machine works automatically. An electronic scanner causes it to discard blank sheets and surplus pages in any stack. And by 'reading' the control cards it sees that only one of each sheet in the set is placed in each pocket. Operating speed is about 6,000 sheets per hour.

Price £2,390.

Addressograph-Multigraph Ltd, Maylands Avenue, Hemel Hempstead, Herts.

Typist's Work Station

PERHAPS the only people who can fully appreciate the convenience of an L-shaped work station are those who have tried to combine typing and clerical work at a single desk. In such circumstances, the unhappy worker feels as though half the day is spent pushing the typewriter out of the way to provide a writing surface.

The new C.U.I. wooden unit provides a typewriter position at right angles to a slightly higher and larger

desk, which can incorporate any of five pedestals. These contain four standard drawers, two standard and one deep drawer, six shallow stationery trays, two deep drawers, or one standard and one pivoting stationery drawer.

Finish of the furniture is oak or mahogany veneer, and the tops are lined with bottle green or black lino. The drawers have recessed mouldings instead of separate handles. If desired, a second typing station may be fitted to the other side of the pedestal unit, producing a T-shaped formation.



Carson Typing Station.

Prices: Complete work station for one, about £33. Extra typing position, about £10.

Carson Bros. (Productions) Ltd, Desk House, Honeywood Road, Basildon, Essex.

Economical Charting System

REASONABLE cost and unlimited versatility as to size and design are the virtues of the *Mora* charting system. There is no standard base; each chart is made up entirely to individual specifications.

A *Mora* chart can be made from users' roughs or finished designs, as they please. These are done on ordinary paper. The paper is then processed with a smooth, transparent plastic film, mounted on a backing of plywood or wallboard, and finished with a narrow plastic framing in black or white.

Signals are available in eighteen colours and comprise strips, or any other shapes, in thin but tough plastic. The signals are self-adhesive, being positioned by finger pressure and removed by gently prising with a finger-nail. They may be polished on both sides (in which case they can be superimposed over one another) or have a matt finish on one side. The polished surface will take ink handwriting; the matt accepts ink or pencil (but not ballpoint ink). The surface of the chart itself can be written on with a wax pencil, all traces of which can subsequently be removed with a cloth.

Prices vary from 18s per square foot upward, depending on whether prepared or rough drawings are submitted and on the type of mounting required. Minimum charge is £4.

Archimedes-Diehl-Machine Co Ltd, Chandos House, Buckingham Gate, London, SW1.

New Legislation

All new Acts will be noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTES

(8 & 9 Eliz. 2)

Chapter 44: Finance Act, 1960

An Act to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, and to make further provision in connection with Finance.

Price 5s 6d net.

July 29th, 1960.

STATUTORY INSTRUMENTS

The Savings Banks (Deposits) (Limits) Order, 1960

(S.I. 1960 No. 779)

The Order consolidates, with amendments, the Savings Banks (Limits of Deposits) Order of 1946 and the Savings Banks (Limits of Deposits) (Amendment) Order of 1952. It applies to accounts and deposits in the Post Office Savings Bank and in the ordinary department of a trustee savings bank and its main purposes are:

- (a) to increase from £3,000 to £5,000 the limit on the aggregate amount standing to the credit of a savings bank account;
- (b) to suspend the limit on the amount which may be deposited in or credited to a savings bank account in any savings bank year. The present limit is £500 subject to the proviso that a depositor may, not more than once in the same savings bank year, deposit money to replace money previously withdrawn in one entire sum during that year;
- (c) to define, with some modifications, the conditions under which the limit shall not prevent the making of certain classes of deposit;
- (d) to define certain kinds of deposit which are ignored in computing the amount of the account for the purposes of the limit;
- (e) to define the terms and conditions under which the limit may be waived in favour of certain classes of depositor.

Price 3d net.

May 2nd, 1960.

The National Insurance (Classification) Amendment Regulations, 1960

(S.I. 1960 No. 827)

These Regulations amend the National Insurance (Classification) Regulations, 1948, by including among the employments in respect of which persons are

treated as employed persons employment as a master or registrar of the Supreme Court of Judicature (including employment as a district registrar) or as a whole-time County Court registrar. They apply to assistant masters and registrars but not to deputies for persons holding any of these offices.

Price 3d. net.

May 16th, 1960.

The National Insurance (Assessment of Graduated Contributions) Regulations, 1960 (S.I. 1960 No. 921)

The provisions of these Regulations supplement those in Sections 1 and 2 of the National Insurance Act, 1959, determining the liability for graduated contributions. They prescribe the manner in which the contributions payable are to be calculated and the treatment of remuneration not paid weekly. They make provision as to the contributions properly payable where an employed person has two or more employments and specify the payments which are not to be taken into account in deciding, for graduated contribution purposes, the amount of a person's remuneration. The Regulations include provision for securing that contribution liability is not avoided or reduced by the use of abnormal pay practices.

Price 6d net.

June 1st, 1960.

The National Insurance (Collection of Graduated Contributions) Regulations, 1960 (S.I. 1960 No. 922)

These Regulations make provision for the payment of graduated contributions and of payments in lieu of contributions.

Graduated contributions (except those payable in respect of seamen) are brought within the Pay-as-you-earn scheme for purposes of payment, accounting and recovery, although the Minister may authorize other arrangements for payment. Employers may be required to give information needed to ascertain whether there is any liability for graduated contributions in respect of employees for whom such contributions have not been paid.

If at the end of an employee's service in a non-participating employment a payment in lieu of contributions becomes due it is to be made to the Minister.

Price 6d net.

June 1st, 1960.

JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON, SW1

Telephone: Victoria 2002 (3 lines)

REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

The Census of Distribution (1962) Order, 1960
(S.I. 1960 No. 1212)

This Order prescribes the calendar year 1962 as a year in which the Board of Trade shall take a census of distribution and other services for the purposes of the Statistics of Trade Act, 1947.

The Order also describes the undertakings in the field of distribution and in the field of other services to which the census will relate.

Price 3d net.

December 31st, 1960.

The Licensed Dealers (Conduct of Business) Rules, 1960
(S.I. 1960 No. 1216)

The Rules regulate the conduct of business by persons licensed to deal in securities under the Prevention of Fraud (Investments) Act, 1958, and supersede the Rules dated July 26th, 1939, made under the Prevention of Fraud (Investments) Act, 1939, with respect to Conduct of Licensed Dealers.

The principal changes are as follows:

- (1) The Rules now apply to offers by licensed dealers to acquire securities as well as to dispose

of them; hitherto they have only applied to offers to dispose of securities for purchase;

- (2) The requirements specified in relation to offers are more stringent.
(3) Additional requirements are specified in relation to take-over offers;
(4) Licensed dealers may not transmit a recommendation by the board of directors of a corporation that an offer to acquire the corporation's securities be accepted unless specified requirements are complied with.

Price 6d net.

August 9th, 1960.

The Trustee Savings Banks (Special Investments) (Limits) Order, 1960
(S.I. 1960 No. 1322)

The Trustee Savings Banks (Special Investments) Order, 1949, as amended, imposed, with certain exceptions, a limit of £2,000 as the aggregate amount which could be accepted from any person for special investment by a Trustee Savings Bank. This Order increases the limit to £3,000.

Price 3d net.

August 1st, 1960.

Notes and Notices

PROFESSIONAL NOTICE

MESSRS WATTS, KNOWLES & Co, Chartered Accountants, of Midland Bank Chambers, Letchworth, announce with regret the death of their senior partner, Mr JOHN CLAPHAM KNOWLES, B.A., F.C.A. The practice will continue to be carried on by the surviving partners under the same name as hitherto.

Appointments

Mr J. C. S. Ferguson, B.A., F.C.A., has been appointed a director of British Overseas Stores Ltd.

Mr A. W. Giles, M.B.E., M.A., F.C.A., has been appointed deputy chairman of the London board of the Scottish Australian Co Ltd.

Mr Denis R. Ward, F.C.A., assistant secretary of Hadfields Ltd, has been appointed a local director of the company.

Mr H. A. B. Claypole, T.D., F.C.A., has been appointed a director of Hampton Gold Mining Areas Ltd.

Col. T. F. Hood, C.B., O.B.E., T.D., D.L., J.P., F.C.A., has been elected a director of Lennards Ltd.

Mr Alexander McKellar, C.A., a partner in David Strathie & Co, Chartered Accountants, of Glasgow, and President of The Institute of Chartered Accountants of Scotland, has been elected to the board of North British Locomotive Co Ltd in place of the late Mr Hugh Cowan-Douglas, C.A.

Mr W. A. Nicol, C.A., and Mr W. W. Fea, F.C.A., director and group secretary, and director and group chief accountant, respectively, of Guest, Keen & Nettlefolds Ltd, are relinquishing their offices of group secretary and group chief accountant and have been appointed administrative director and financial director respectively. Mr F. C. Rowbottom, F.C.W.A., at present assistant chief accountant, has been appointed group chief accountant.

Mr I. P. McEwan, M.V.O., C.A., financial comptroller of The De La Rue Co Ltd, has been appointed a director of the company. Mr McEwan will remain as financial comptroller.

OBITUARY

Harold Derwick, F.C.A.

It is with regret that we record the death, at the age of 61, of Mr Harold Derwick, F.C.A., principal in the firm of H. Derwick & Co, Chartered Accountants, of Leeds.

Admitted to membership of The Society of Incorporated Accountants in 1926 and elected to fellowship in 1931, Mr Derwick was a past president of the former Incorporated Accountants' District Society of Yorkshire. He had been a director of Yeadon Waterworks Co for twenty years, being chairman for three years, and was a prominent freemason. He became a

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Fellow of The Institute of Chartered Accountants in England and Wales in 1958.

Cecil Victor Smylie, F.C.A.

It is with regret that we record the death of Mr Cecil Victor Smylie, F.C.A., senior partner in the firm of Hugh Smylie & Sons, Chartered Accountants, of Belfast.

Mr Smylie, who served in the First World War in the 14th Battalion, the Royal Irish Rifles, attaining the rank of captain, was admitted to membership of The Institute of Chartered Accountants in Ireland in 1930. A member of the British Legion, he held the office of honorary treasurer of the Belfast branch for twenty-five years and was also honorary treasurer of the Northern Ireland War Memorial Fund. Mr Smylie held a number of offices in the masonic order.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

A residential conference on 'Information for management' will be held at *The Grand Hotel*, Brighton, from November 17th to 19th. The papers to be given will be:

- 'Operating statistics - how they are built up and used', by Mr W. H. Leather, M.A., F.C.A.
- 'The use of accounts codes', by Mr B. A. Maynard, M.A., F.C.A.
- 'Information for board level - operating and holding companies', by Mr W. W. Fea, B.A., F.C.A.

The inclusive charge will be £7 10s 0d and further details, with application forms, will be sent to all members in due course. Members are asked not to communicate with the Secretary of the Society until then.

LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS

Intermediate Prize

The committee of the Liverpool Society of Chartered Accountants announces that its Intermediate Prize will be awarded to the candidate who, being a member of the Liverpool Chartered Accountant Students' Association or any one of its constituent branches, gains the highest place in the Institute's Intermediate examination held in May last. The prize will take the form of a book to be chosen by the President of the Society.

It is the responsibility of the student to apply for the prize. Applications should state the position gained in the examination and should be sent to the Hon. Secretary, Liverpool Society of Chartered Accountants, 3 Stanley Street, Liverpool, 1, within two calendar months after the promulgation by the Institute of the results of the examination.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 22ND, 1885
A Weekly Note

It would appear that defective accounts and systems of account are not to be found merely in such quarters as building societies and municipal corporations, but that Government departments exhibit weakness in this respect. The report of the Select Committee on Admiralty Finance recently issued, clearly shows that the accounts have been kept very loosely, and in an irregular fashion. Individual officials are altogether exonerated from blame, but the system which unfortunately they have to administer receives emphatic condemnation. It is probable that the methods in use in the accounts of other great Government spending departments are neither better nor worse than the department in question, and a thorough examination and revision of the accounts seems urgently called for. It is probably too early in the day to press for the adoption of a suggestion made some years ago, that the accounts of Government departments should be audited by independent professional accountants, but if the time has not yet come, let us hope it is coming when the many advantages of such a plan will commend themselves.

COURSE IN BUSINESS ADMINISTRATION

An intensive residential course in business administration organized by King's College, in the University of Durham, is to be held at Lumley Castle, Chester-le-Street, Co. Durham, from September 11th to 24th.

The course contains an integrated series of lectures to be given by members of the university staff and subjects will include 'The concept of cost', 'Management accounting and decision-making', 'Relations between costs and pricing' and 'Investment decisions'. The subject-matter of each lecture has been selected to form a topical sequence of ideas and will be followed by group discussion. A second series of lectures will be devoted to the problems of operational research. In addition, evening lectures will be given by financial experts who will examine some of the problems of the finance of industry.

The remainder of the course will be devoted to a series of case studies and exercises chosen to complement the first programme of lectures. Further details of the course are obtainable from the Director of Studies, University of Durham, King's College, Newcastle upon Tyne, 1.

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Agreement in Europe?

EVER since the breakdown of discussions between Britain and the Common Market countries in November 1958, concern regarding the consequences for the British economy of this country's probable exclusion from the most important sector of the European market, has been growing. The recent report of the United Nations Economic Commission for Europe that the prospects for economic expansion in the Common Market countries far exceeded those in the Outer Seven has merely served to underline the growing fears. That same report also drew attention to Britain's uncertain balance of payments situation, the seriousness of which was stressed by MR MACMILLAN's latest appeal for a greater export effort. The continuing reduction in the United Kingdom's share of world trade was analysed in the latest bulletin of the National Institute of Economic and Social Research and that same survey drew attention to the decline in Britain's share of the sterling area's trade.

The recent apparent improvement in the European atmosphere, engendered by a readiness to resume discussions on the respective roles of the two trade groupings, is therefore to be warmly welcomed. While there is no likelihood of immediate reconciliation between the two conflicting viewpoints, the fact remains that both parties have clearly realized the serious consequences which could follow a failure to come to terms. The new spirit of compromise and even optimism that is now evident may be attributed to a number of factors.

The first and most obvious has been the pace of development within the Common Market. It has become increasingly obvious to Britain and other members of the Outer Seven - a phrase which seems so much more apposite than the official title of the European Free Trade Association - that unless they are completely reconciled to exclusion from the Common Market and even a trade war, then a renewed effort to achieve a *modus vivendi* was urgently required. In consequence, there has of late been a marked softening in the tone of official British pronouncements on European matters. In particular, Britain has indicated its readiness to amend its present association with Euratom and the European Coal and Steel Community (E.C.S.C.) to full membership, no doubt as a possible stepping-stone to full membership of the Common Market. Another important factor has been the obvious interest of the United States and Canada in the European scene. These countries are to become full members of the proposed Organization for Economic Co-operation and Development, which is to replace the O.E.E.C. with which organization

the New World was only loosely associated. Of particular importance to Britain is the emphasis laid upon aid to the under-developed territories by this new body. The recent Bank of England report has commented on the strain which the British contribution to world development has and can impose upon our balance of payments position. Finally, but certainly not least, there is the influence of the recent deterioration in East-West political relations. In this situation the need to avoid aggravating any differences of opinion that already exist within N.A.T.O. is self-evident. The recent meeting between PRESIDENT DE GAULLE and DR ADENAUER, and the meeting of MR MACMILLAN with the German Premier, can be set in this context.

By their willingness to discuss their various difficulties, the two trade groupings have at least reached the first stage of what might ultimately be the road to the complete unification of Western Europe. Even more important is the fact that an approach to these subjects seems to have been generally agreed. The first step must be to ensure that during the initial stages of the evolution of the Common Market and the E.F.T.A., the risks of trade discrimination between their respective members are kept to a minimum. On this particular point the forthcoming September meeting on the General Agreement on Tariffs and Trade (G.A.T.T.) should prove most helpful, not least because the United States Government is prepared to make some concessions in its own tariff policy which should encourage, given the recent easing of the European dollar problem, a general move towards trade liberalization. Furthermore, the declared intention of the Common Market countries to offer a 20 per cent cut in their external tariff has been welcomed by MR DILLON, the American representative, who has already stated publicly his opinion that the Six and Seven can live separately but harmoniously within Europe.

The immediate and short-run problems having been settled, the second stage in the discussion must centre on formulating a long-run policy acceptable to both the Six and the Seven. While, as will be discussed below, Britain could accept membership of the Common Market, this course of action is far less practicable for, say, Austria, and less attractive to Switzerland, to mention only two of the E.F.T.A. members. It may well

be that the most acceptable solution to all concerned will be to continue with the two groups within Europe and devise means whereby dangers of conflict and discrimination can be minimized, lest European economic progress be retarded instead of being accelerated. The new O.E.C.D. should be invaluable in this respect since it is already agreed that it shall provide a forum for continuous discussion of any problems that the separate existence of the Six and Seven may create.

There remains the last possibility that Britain might become a full member of the Common Market with all the obligations that this would entail. It is noteworthy that this proposal, which was originally rejected almost out of hand by official opinion, is now being put forward by several informed commentators.

There are signs that organized British industry is no longer quite so averse to such a step; for some it is simply a case of *faute de mieux*, for others it offers a major opportunity to break into the world's most rapidly-expanding market. It is relevant at this stage to consider the points on which the discussion—primarily those between Britain and France—foundered the last time and to inquire what has changed. First and foremost it seems that the recent revival in the French economy has made British entry into the Common Market much more acceptable than in the past, always assuming, of course, that Britain is willing to meet the other requirements of membership. The problem of British agriculture is no longer so intractable as it once appeared; all members of the Six want to retain a measure of protection for their farmers and the only question concerns the form that this protection should take. The position of Britain at the centre of the Commonwealth and its imperial preference commitments is slightly more difficult, but it does seem as if a measure of harmonization between British and Common Market external tariffs could be coupled with the retention of some safeguards for Commonwealth exports to the British market. An important point to bear in mind here is that there is a growing realization that imperial preference is of diminishing value to both parties as the economies of the Commonwealth are being rapidly transformed.

In short, the economic obstacles to Britain's full membership within the Common Market

no longer appear insoluble; even the once hotly disputed question of harmonizing social policies no longer presents serious difficulties. A recent survey in Western Europe has revealed that labour costs, inclusive of employers' social policy contributions, are more or less equal. There remain, however, the political differences. The pioneers of the Common Market were imbued with the ideal, not of economic unification alone, but of political unity. The former, as Britain stressed in the initial discussions in 1957-58, could be met by a free trade area. The French, however, have always insisted upon the political

aspects of the Common Market and quite recently PRESIDENT DE GAULLE reaffirmed his Government's attachment to this policy. It remains to be seen how far the British Government will go along with the other members of the Six in this matter.

Whatever the outcome of discussions and negotiations during the next few months, it is to be hoped that they will initiate a new era of European economic freedom and enterprise just as did the Cobden-Chevalier treaty of a hundred years ago, which, incidentally, was preceded by much hard bargaining and pessimism regarding its outcome.

FINANCE ACT, 1960

Investment and Dealing Companies—I

THE arbitrary distinction which income tax law makes between income and capital gains is nowhere more arresting in its effect than in the case of dealing companies on the one hand and investment companies on the other. Gains made by a dealing company on transactions in investments are taxed to the same extent as the investment income itself, no matter how long the investments have been held; similar gains by an investment company escape tax altogether. The temptation to manipulate sales and purchases of investments between or with dealing and investment companies under the same control, so as to avoid tax, is thus extremely great. What, for instance, could be simpler, for the persons in control, than to concentrate 'growth' stocks in an investment company and to concentrate high-yield depreciating stocks, like foreign mining shares, in a dealing company? Sections 25 and 26 of the Finance Act, 1960, are directed to nullifying the tax advantages of manipulations of this kind.

Section 43 of the Act gives special meanings to certain words used in Sections 25 and 26. The meaning of 'associated company' is brought out by Section 43 (1) which directs that for the purposes of Part II of the Act 'two or more companies shall be treated as associated companies if one has control of the other or others, or any person has control of both or all of them'. 'Control' has the same meaning as in Part X of the Income Tax Act, 1952, i.e. in Section 333 (1)

of that Act. This defines control as the power to secure that the affairs of the company are conducted in accordance with the wishes of the controller—by means of the holding of shares or the possession of voting power in relation to the controlled company or some other company, or by virtue of the articles of association or similar document regulating the affairs of the controlled company or some other company (Section 43 (4) (c)). References in Part II to, say, company A. having control over company B., are to be construed as references to company A. having control either by itself or in conjunction with any person having control over company A. Thus, if A. is controlled by X., and X. holds 40 per cent of the voting shares of B., then if A. holds 11 per cent or more of the voting shares of B. it controls company B. for the purposes of Part II of the Act (Section 43 (2)).

A 'dealing company' is a company dealing in securities, land or buildings; it includes any company whose profits on the sale of securities, land or buildings are part of its trading profits. We will use the term 'non-dealing company' for a company which is not a dealing company. 'Securities' includes shares. (This is not a definition at all. In general law shares are not securities and this extension to the meaning of securities leaves it doubtful as to what else is to be regarded as a security.) 'Shares', except where the context otherwise requires, includes stock. 'Investment company' means a company whose business

consists mainly in the making of investments and the principal part of whose income is derived therefrom. This would in practice presumably include a company which began life with an investment, or received investments as a gift, and a company which did not have any income in a particular year because its investments failed to pay a dividend. 'Trading stock' has the same meaning as in Section 143 of the Income Tax Act, 1952, which meaning is extended by Section 35 (5) of the Finance Act, 1960, to include, in relation to a trade, any services, article or material which would be treated as work in progress for the purposes of Section 35 if the trade were a profession or vocation.

After this initiation into the terminology of Sections 25 and 26, it is possible to examine the words of Section 25 itself. Section 25 (1) imposes liability to income tax under Case VI on a non-dealing company in respect of any profit which it makes out of disposing of an asset where *either*:

- (a) (i) it acquired the asset after April 5th, 1960, from an associated dealing company; and
- (ii) the asset was part of the trading stock of that associated dealing company; and
- (iii) it is not shown that the asset consisted of securities acquired in pursuance of an offer for sale to the public by the associated dealing company, no preference being given to associated companies; *or*
- (b) the non-dealing company disposed of the asset to an associated dealing company.

If the disposal took place in pursuance of an agreement (including an oral agreement) made before April 6th, 1960, Section 25 (1) does not apply. If the company making the notional profit is a surtax direction company, the profit is to be treated as investment income.

Where the acquisition under (a) or the disposal under (b) is within Section 469 of the Income Tax Act, 1952, and in accordance with that section the actual sale price is replaced for tax purposes by a notional price as between two independent persons, then that notional price is to be adopted also for the purpose of Section 25 (1).

Pausing at Section 25 (1), it is clear that the non-dealing company which has acquired assets from the associated dealing company could avoid liability under (a) and under (b) by selling the asset to another associated non-dealing company

without making any profit, and that company could dispose of it at a profit to someone who was not an associated dealing company. This device is checked by Section 25 (2). If the disposal of an asset is to another associated non-dealing company, then that company, and any other associated company subsequently acquiring the asset, is to be treated for the purposes of (a) as if it had acquired the asset from an associated dealing company. Accordingly, when it sells the asset again to a stranger, it will have to pay tax on the profit even though it is a non-dealing company. However, Section 25 (2) is not to apply to any acquisition of the asset after it has been acquired by an associated dealing company or by a person who is not an associated company at all.

Section 25 (3) deals in advance with a further anti-avoidance device. If a non-dealing company acquires, from an associated dealing company, shares or debentures in a third company (or is treated under Section 25 (2) as having done so), it might have been possible so to arrange matters that the third company issues further shares or debentures in right of the original ones, and that the non-dealing company disposes of these new shares or debentures. Section 25 (3) forestalls this by providing that the non-dealing company shall be deemed to have acquired the new shares or debentures (or the right to them) also from an associated dealing company. The subsection speaks rather unnecessarily of shares or debentures in a 'body corporate'; Section 43 (4) (b) defines 'company' as including a body corporate in every case.

If the liquidator of an investment company effects the disposal of one of its assets in respect of which the company would have been chargeable under Section 25 (1), the liquidator himself is chargeable and the profit is deemed to be income of the company arising after the commencement of the winding up (Section 25 (5)). If a non-dealing company makes a loss in a transaction within (a) of subsection (1), the loss is available for set-off under Section 346 of the Income Tax Act, 1952, but only against other income assessed under Section 25, and only if such other income falls within (a) of Section 25 (1) (Section 25 (6)). Loss relief is not given where the loss arises under (b) because on a sale under (b) the parties could artificially create a loss.

(To be concluded.)

Profit-sharing

Some Accounting, Economic and Social Implications

by J. W. MATTHEWS, B.Sc.(Econ.), F.C.A.

Lecturer, Department of Economics and Political Science, University of Hong Kong

THE word profit has different meanings in different contexts. In the expression 'profit-sharing' it is generally taken to mean accounting net profit – the amount traditionally available to the proprietors or the owners of 'risk capital' after provision has been made for all other current claims and for maintenance of capital, which is now to be shared with employees.¹ The total provision is defined as 'cost' and we get the equation *cost plus profit = revenue*.

Most existing schemes have been worked out in terms of a sacrifice for the common good by the owners to the employees of part of the right of the former to the whole profit. It is worth while to point out that profit-sharing in this sense can take place undisclosed. Above average remuneration, special consideration for employees of long standing, shorter than average working hours, idle time which is concealed or condoned, are forms of profit participation found in firms which are, in one way or another, sheltered from keen competition. Conversely, employees may share losses by being underpaid or overworked or both. A wage increase reduces accounting profit, a wage cut increases it; neither, by itself, indicates any change in the absolute earnings of the enterprise, the total amount distributed in income to persons.

Defining 'Profit' to be Shared

We may describe business activity in terms of product resulting from the combined operations of labour and risk capital, the value of which, subject to an agreed tribute payable to the landowner for space occupied, various levies imposed by local and central government for community services and a fixed portion for lenders on security, is distributed in agreed proportions among the operators. Formerly, the providers of risk capital, having the power to dictate terms, negotiated with employees for a guaranteed share to the latter, the remainder to accrue to themselves. By guaranteeing remuneration, sub-

ject to the right of dismissal or closure, they – the proprietors – bore the risk of loss. By combination for joint action, aided by full employment, employees now have considerable power to force increases in their own share and to resist dismissal. Employee participation in profits and control is an attempt to attach responsibility to this power, for power without responsibility, as contemporary industrial relations illustrate, cares little about productivity.

In economic theory, net profit is analysed into interest on capital, reward for risk coupled with ultimate responsibility, and, in the case of unincorporated firms, remuneration for management, resulting in the simpler equation, *cost = revenue*. This construction is also used in social accounting. It is the risk portion which, in theory, should be the 'profit' shared, the difference above or below normal remuneration and interest on capital. It is this marginal profit or loss which, in a market economy, serves to adapt business activity to changing conditions. How far it is effective in an advanced Welfare State is not here under discussion. It is assumed without question that satisfactory employee participation involves the sharing of losses, in the limited sense defined. A firm can safeguard employees' basic remuneration before embarking on a scheme of profit-sharing by building up or allocating a specific reserve and the constitution may provide that in the event of the reserve disappearing, reconstruction or liquidation shall be compulsory.

Standards Required

For marginal profit or loss to be consistently defined for all occasions, standards must be settled for normal or 'cost basis' remuneration and interest on capital. The existing contractual arrangements, subject to bonus scheme adjustment, can be adopted as standard remuneration. Current interest rates for fully-secured loans will give a measure for standard interest. Preference dividends must, of course, be paid according to contract; the excess over standard interest is a

¹ This definition needs to be qualified if the net profit is to be shared after providing the preference dividend.

share of marginal profit, the agreed reward for sharing the capital risk. In unincorporated businesses standard remuneration for working proprietors has to be settled.¹ These items can be charged against accounting net profit and the balance transferred to what may be called 'Profit-sharing dividend reserve account', out of which dividends are declared. A formula or agreed procedure will be needed for adjusting standards from time to time to changes in market interest rates, currency value and, perhaps, the general standard of living. When it is decided to retain profits for reinvestment bonus shares can be allotted, fractions being paid out in cash and the units made up from these sold in whatever way may be agreed. Bonus issues at the time of ploughing back will lessen the likelihood of disagreement on policy. It is true that such funds are thereby precluded from subsequent cash distribution, but it is unlikely that once profits are really ploughed back, they are ever freed again for distribution in cash except in such circumstances as would in any case call for a capital reconstruction.

Serving Utilitarian Ends

In discarding the notion of proprietors' sole right some would attempt a distribution formula based on moral right. R. H. Tawney in *The Acquisitive Society* advocates running a business wholly with fixed interest bearing capital under employee direction and control of profits, a complete reversal of the constitution. The co-operative societies have put this into practice as to the return on capital but only in a small sector in conjunction with workers' control and right to profit. If, for example by legislation, this arrangement were established throughout the economy the result would be that private capital would invariably seek out secure investment (or take flight abroad). For economic development and flexibility to change profit-seeking capital is necessary.² Agreement is hard to reach on moral desert and such criteria cannot easily, some would say not

logically, be used to measure out financial reward.

If we look to utilitarian ends, where agreement is more likely, profit distribution can be seen to serve two practical ends: as an incentive to employees to work efficiently and to both employees and shareholders to shoulder risk. Loan creditors and landlords, the other claimants, with government, on total economic income, are secured from risk in other ways. It is hardly possible to measure separately in money terms the risks borne by partners in a common enterprise. Employees under a scheme of this kind risk losing their share of the profit equally with the owners of risk capital. They risk losing their job if the business fails and perhaps their domicile with all that that may entail, while the shareholders risk losing their investment in the company. The risk of losing one's job through inefficiency is not included, but losing it through redundancy is, and this may be said to be paralleled by the shareholders' risk of diminution in the market value of their shares. For both employees and shareholders liability to creditors is limited. The method of sharing which seems best to serve these utilitarian ends and to which there appears to be least moral objection, if only because 'it cannot be shown that any other method is more just', is to pay dividends in proportion to standard income, each person, employee or equity shareholder receiving a *pro rata* addition to his income from the business. If it is thought that the portion of preference dividend which is in excess of standard interest should be borne by the equity shareholders alone and not at all by employees, then it must be brought into hotchpot for calculating the dividend and then deducted from the amount due to the former.

The amount of minimum reserve required to be maintained depends on what is intended to be minimum annual distribution. If, for example, 10 per cent of standard income is fixed upon as the desired minimum distribution, then 50 per cent of total standard income might be considered an adequate reserve. It may be possible to find this amount immediately from existing reserves. If the specific reserve has to be built up over a period of years then the scheme must await this period. In the early years of any scheme it may be thought that employees' shares of profit should in fairness be varied according to length of employment with the firm. Whether this should be retained as a permanent feature, or whether new employees should be denied dividend for a probationary period, cannot be

¹ For the sake of brevity, terms applicable to the limited company form of business unit (shareholders, dividends, bonus shares) are used for the most part, but, except for the reference to limitation of liability in the next paragraph, the main argument applies equally to unincorporated as to incorporated firms.

² Ideally, if it were possible for a community to realize when it had reached optimum development (optimum for individual civic character - a hard assessment), legislation of the kind mentioned would send surplus capital abroad where it was needed instead of adding to luxury trades at home, and at the same time discourage foreign capital from coming in. It may be thought that some nations today who are still striving to increase their wealth and income per head have progressed already beyond this happy condition.

decided without carefully weighing up the loss of incentive against the sense of justice done.

Effect on Traditional Business Pattern

The benefit to be derived from subjecting the power of the workers to the discipline of responsibility has already been mentioned. In any case it will be generally agreed that spontaneous co-operation can only be fully achieved if employees, who are to share risk, are also given representation on the board of directors. If the workers undertake part responsibility for management they will realize their proper place in a fully co-operative society, and the dignity of labour will receive, perhaps for the first time in the history of a democratic society, full recognition instead of lip service. The degree of representation may be fixed as for profit-sharing, by allotting voting power in proportion to standard income. Whether employees have separate representation from shareholders is better left to their own choice rather than fixed in the constitution. It is to be hoped that such ganging up, indicative of real or imaginary divergence of interest, will not persist in the enterprise.

An important subject for consideration, as yet only academic, is the effect on the traditional pattern of business of a general adoption of systems of sharing profits and responsibility. Apart from increase in productivity, it may be thought that employment preferences would change. Workers in general would certainly become more sensitive to profit anticipation than at present. This would surely be a good thing, just as it is a good thing for capital to seek out the most profitable channels of investment. Mobility of labour, a classical economic good, would be encouraged in the right direction at the right time.

Difference in the proportions of interest and remuneration in different activities does not show a clear advantage either way in regard to one person's share of profit, though employees as a body would hold a greater proportion of the total voting rights where capital investment is low and the payroll high. The redistribution of earnings would be more radical in firms of this pattern except to the extent that profit-sharing replaces other forms of incentive payment, and if the pattern is general throughout a particular line of business, customary gross profit margins, fixed to produce a satisfactory yield on capital employed, may be found inadequate to produce a satisfactory profit-sharing yield. The result might be a change in the

structure of selling prices with a consequent effect on the progress and decline of different forms of industry, to the advantage on the whole of firms and industries where capital investment is high. Progress in mechanization would therefore be encouraged, except to the extent that the influence of employees on boards of directors might oppose this. One has to admit the danger of conservative methods of production being clung to in spite of progress elsewhere. Safeguards on a community basis as to alternative employment, or an agreed principle of compensation for loss of office, would remain the most effective preventative. Given such safeguards, profit-sharing employees might be more agreeable to change.

Employee Preference

Employee preference would lean towards high gearing, but acceptable security, investors' preference and the handicap of a heavy fixed annual charge would still set the limit. It is customary financial policy, where high gearing is contrived in the first place, to pay off borrowed capital out of retained profits, in which case the company would settle down into a structure of low or average gearing, with at least the possibility of considerable employee shareholding.

A more concise picture of these possible effects may be given as follows. The distribution of business product (gross earnings less 'purchased expense') can be divided into fixed proportion reward and variable proportion reward:

(1) *Fixed proportion* -

- (a) Employee remuneration.
- (b) Rent, rates, duties, Schedule A, etc.
- (c) Fixed interest and preference dividends.

(2) *Variable proportion* -

- (d) Net profit accruing to equity shareholders.
- (e) Schedule D and profits tax.

(1) (c) and (2) are interchangeable within the limitations on gearing mentioned above. Increased capital investment and reduced remuneration through mechanization will increase total return on capital of all kinds absolutely and relatively and give greater influence to this interchangeability. A general adoption of profit-sharing would shift (1) (a) into class (2). This would be partly offset by greater inducement to increase (1) (c) from (2).

Comparative research into occupational differences in business structure could produce more

precise information as to some of the effects which might be expected. Civil Service and other non-profit-seeking employment might require some adjustment of salary scales to compete

with profit-sharing employment, but this would only be a special case of the perennial problem of inducing some of the people to serve the community directly.

Running the Smaller Office

10 — AIDS TO FILING

by An O. & M. ADVISER

NOT all records are kept within the document files. There are a number of aids to filing; sometimes they are exceedingly useful subsidiary systems and sometimes they are mere gadgetry eventually doomed to collect dust in a corner. It depends entirely on the circumstances of each office.

The commonest type of recording system apart from the files themselves are blind cards (the well-known 'postcard' type card). These can be exceedingly useful and they also have the merit of being cheap to maintain. They are so obviously a candidate for consideration for ready access devices that a word of warning may be given. Although they are easy to operate, cards such as these are easily lost as well, and they tend to become unstandardized. Again, a number of people gradually gain the right to run a card index system although they may not be allowed to have their own filing system. Care should be taken not to let staff have series of cards which are in effect a reproduction of the files nor to let people pin odd documents on to them.

Another good, cheap system is the universal binder which can best be described as the type of index reference found in public libraries where they are used as author and subject references. These are very easy to refer to but they have two drawbacks. The sheets are not very robust and there is a limit to the amount of information which they can carry. They can carry more, however, than most patented and much more expensive systems.

Visible index cabinets are available in several brands. These are useful for giving a quick appraisal of a situation and missing cards are rapidly traced. Although they need a good deal

of room for active use, they are invaluable where there is a small amount of key information to be recorded which may be quickly wanted.

Of similar merit are visible index binders and strip indexes. They are clear, quick to operate but somewhat tedious to use when sheets have to be replaced. Nevertheless, someone can be trained to do this quickly and where rapid reference is important they have a great deal to recommend them.

There is no best recording system, just as there is no best filing system and no best way of reproducing documents. The merits of each must be examined against the requirements of the job in hand.

Simplifying Techniques

The most efficient office is not the most highly mechanized one but the one where the problems have been thought out and changes made and procedures laid down in the light of objective analysis. There is a trend towards mechanization today but it is important to understand that this does not mean a wholesale sweeping away of manual methods because they are not fashionable. Some of the largest companies today are finding that although they may wish to install computers to give rapid information on one set of data, elsewhere there is great merit in simplifying techniques so that they can be performed by clerical staff without large batteries of gadgets.

Much of this is likely to be true of the smaller office. If office procedures are examined to make them more efficient it is more than likely that part of the improvement will be the reduction in the number of forms and bits of paper circulating, simpler and more direct methods of doing jobs and a more productive use of the time of the staff.

There is one final argument in favour of simplicity. The trend of factory and office procedure is towards higher speeds and more complicated techniques. If office work is to cope with this trend it must remain constantly aware of the virtues of simple, direct methods. There is no reason at all why a battery of machines in one department should not be next door to clerks sitting in rows wielding slide rules and ready reckoners. It depends on circumstances whether the punched-card installation is mightier than the pen. Intelligence and systematized common sense are mightier than either.

Previous articles in this series appeared in the issues of April 23rd and 30th, May 21st and 28th, June 11th and 25th, July 2nd and 30th, August 20th. The series is now concluded.

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

NEW ZEALAND

Industrial Expansion

CAPITAL issue controls have been relaxed by the New Zealand Government to help build up working capital; in addition, the special depreciation allowances have been reinstated at 20 per cent above the ordinary rate. Controls still exist as regards new capital when it comes to new enterprises from abroad wishing to start up in New Zealand or local ones wishing to become established abroad. De-licensing of industry has also been completed.

It will be easier to plough back profits with the removal of the excess retention tax which aimed at forcing companies to distribute at least 40 per cent of net profits as dividends.

A general tariff revision is planned for 1961 and this is expected to displace import controls except in an emergency. Altogether the price system and freer enterprise is to take the place of central planning to some extent in an effort to give an impetus to New Zealand's industrial expansion. Thus, one of the earliest and longest lived experiments in economic planning on Socialist lines is to have a dash of private enterprise and a faint flavour of liberal economics administered to it as the industrial prescription for the nineteen sixties.

UNITED STATES

American Institute's Annual Meeting

THE seventy-third annual meeting of the American Institute of Certified Public Accountants will take place in Philadelphia from September 25th-28th.

Among the subjects to be considered at the business sessions will be 'Ethics of tax practice', 'Practical problems of practice', 'The non-practitioner and the practitioner working together', 'Six views of financial reporting' and 'How far can we go toward uniformity and comparability of accounting principles'. The annual meeting will take place on the second day of the conference and President Eisenhower has been invited to address members. The entire day will be devoted to the meeting on the theory that the 'stockholders' of the Institute should be given an opportunity to hear reports of the main committees and projects and 'to question the officers and others on their stewardship'.

At the installation luncheon on Wednesday, under the chairmanship of Mr J. S. Seidman, C.P.A., President of the Institute, the installation of the new President and officers will take place, followed by the Institute Gold Medal Award ceremony.

There will be a number of interesting social events for members, wives and guests, including the

President's reception and the Institute's special reception for new members and for members attending the meeting for the first time. A special concert by the Philadelphia Orchestra, under its distinguished conductor Eugene Ormandy, has also been arranged, and gala dinners with dancing and entertainment will be held in the ballrooms of the two hotels which will be accommodating delegates.

A special programme for the ladies will include tours of Philadelphia, a luncheon and fashion show, and a talk by Mr Maurice H. Stans, C.P.A., a past President of the Institute and director of the Bureau of the Budget, on the problems of budgeting for a 'family' of 170 million.

Electronics in Management

CURRENT developments in automatic data-processing systems will be the theme of the Seventh Institute on Electronics in Management, to be held at The American University, Washington, D.C., from October 31st to November 4th, 1960.

Sponsored by the School of Government and Public Administration of The American University, the Institute is designed for management personnel, from Government, business and industry.

Topics for discussion include: integrated data systems, techniques for source data automation, new developments in communication, automatic programming, and new equipment reports. Other sessions will cover: advanced management information systems; automatic character-reading experience; information storage and retrieval - theory, methods, and equipment.

AUSTRALIA

1960 Budget

THE Federal Treasurer presented a deflationary Budget to Parliament in Canberra on August 16th. He cancelled the shilling rebate granted in last year's Budget on personal income tax, and he increased the rate of tax on companies from 7s 6d to 8s in the £, the figure to which it was raised in the deflationary Budget of 1956. The first increase will yield nearly £A23 million; the second will yield £A18 million, in each case in a full year. This, however, is the worst. Major increases in indirect taxation which would increase living costs were avoided. The sales tax on electric razors was raised from 12½ per cent to 25 per cent and there were some other upward adjustments of this tax but they were very minor. Old-age and certain other pensions have been increased, the increase in the case of old-age pensions being 5s a week. Otherwise there is no encouragement to the admitted spending boom.

Weekly Notes

The Association's Examinations

IN the June 1960 examinations of The Association of Certified and Corporate Accountants a total of 1,989 candidates sat, of whom 723 were successful. There were 622 candidates in Section I of the Final, of whom 214 (34 per cent) passed and 408 failed. The First Place and Prize were won by Mr M. P. Kelly, of Black Rock; the Second Place by Mr C. M. Mistry, of London, and the Third Place by Mr D. Reynard, of Leeds.

In Section II, 438 candidates sat of whom 189 (43 per cent) were successful. The First Place and Prize were won by Mr J. P. Shalders, of Brighton; the Second Place by Mr D. F. Holland, of Bushey, and the Third Place by Mr E. R. Farmer, of Reading.

There were 836 candidates for the Intermediate examination of whom 281 (33 per cent) passed, the First Place and Prize being won by Major R. E. Petty, of Devizes.

In the Preliminary examination, 39 candidates (42 per cent) out of 93 were successful.

The names of the successful candidates in Sections I and II of the Final, together with a full summary of the results, appear elsewhere in this issue.

Cost Accountants' Examinations

A TOTAL of 6,014 students from the United Kingdom and overseas sat for the June 1960 examinations of The Institute of Cost and Works Accountants and 2,003 were successful. There were 97 candidates for the Fellowship examination, of whom 24 passed. The Lewton Coronation Prize was won by Mr H. E. H. Beck, of Maidenhead, and the Beyer Peacock prize by Mr R. G. H. Nelson, of Upminster.

A total of 2,002 candidates sat for ~~the~~ ^{the} part of the Final examination, 305 successfully completed the examination, 86 passed Part A only and 345 passed Part B only; the remaining 1,266 candidates failed. Mr W. S. C. Richards, of Sutton Coldfield, gained the First Place and the S. Laurence Gill Prize.

In the Intermediate examination there were 3,715 candidates, of whom 549 completed the examination and 659 passed Part I only; 2,507 candidates failed. The George Russell Memorial Prize was won by Mr B. P. Frost, of Sheffield.

A summary of the results, together with the names of the candidates who were successful in the Fellowship examination and of those who successfully completed the Final, appear elsewhere in this issue.

State Quizzes

IF the present broken weather continues, those readers who have not yet taken their holidays might like to try their hand at awarding marks to the sixty-seven committees of inquiry and the three Royal Commissions which have been appointed since January 1955. The suggestion is made by Sir Alan Herbert in Hobart Paper 5¹ which lists the Royal Commissions and committees appointed in the last five years, leaving a column for the reader to insert the marks awarded in each case. A conscientious study which involves reading all the reports issued (even though twenty-eight have not yet reported) should occupy all the available wet days even in this rain-soaked summer.

Though written with Sir Alan's usual light touch and containing a reproduction of a cartoon from *Punch* of 1876, the paper reviews the arguments for and against the use made of committees and suggests a code of conduct which would forbid the appointment of committees for 'indirect or tricky purposes', to stifle awkward discussion or postpone action, kill an unwelcome proposal or lend an appearance of impartiality to action on which the Government has already decided.

The final conclusions recognize that the committee within Governmental bodies is a good instrument of Government but Royal Commissions and committees of inquiry appointed by the Crown outside the Government bodies are prima facie evidence of a failure of Government. The need for them would be diminished if each Government department was better equipped to think ahead. Their appointment should therefore require the consent of the House of Commons; when appointed, a date for their report should be laid down, and their members should be paid substantial fees.

More Recommendations on Company Law

THE Associations of Building Industry Distributors and of the British Federation of Plumbers' Merchants have joined to compile and submit to the Jenkins Committee a robust and thought-provoking memorandum of representations for the improvement of company law. Members of these associations must include many building companies among their customers and building companies stand high in the categories of companies which tend to become insolvent. It is perhaps for this reason that the memorandum devotes a good deal of space to strengthening the law against directors of insolvent companies and making the position of creditors more favourable. The memorandum also stresses the importance of publicity about the persons actually in control of a company, particularly where the company is a wholly-owned subsidiary. It attaches great importance to the requirement that the names of directors be disclosed in the company's letters,

¹ Published for the Institute of Economic Affairs by Barrie & Rockliff, price 3s 6d.

along with the names of their principals, where they were nominees.

The authors of the memorandum would like to see the Board of Trade taking a more vigorous line against directors who make a declaration of solvency without having reasonable grounds for it. They suggest that the provisions in Section 330 of the Companies Act, 1948, concerning fraud by officers should be extended to cover directors who go on trading without the creditors' agreement when they know that the company is insolvent. They also suggest that a director of a company which fails should not be allowed to go on the board of another company without either the leave of the Court or the equivalent of a discharge in bankruptcy.

The Accepting Houses Committee and the Issuing Houses Committee have also submitted a combined memorandum. They reiterate the views of the British Insurance Association, whose representations were referred to in last week's issue, that banks should be allowed to have hidden reserves. With regard to takeover bids they consider it is neither right nor practicable to attempt to introduce any measure of control over such bids by controlling the provisions of finance for these operations.

On other questions, they are against any statutory requirement for the periodic revaluation of company assets; they are against the prohibition of non-voting shares, and they suggest that holders of over 15 per cent of the voting rights of a company should be obliged to disclose this holding.

Commonwealth Preference

THE latest publication by Political and Economic Planning, *Commonwealth Preference in the United Kingdom*¹, is of particular topical interest in view of the need to reconcile Commonwealth preference with any general settlement between the Six and the Seven. P.E.P. finds that in 1957 about half the total United Kingdom imports from Commonwealth countries received preference but that the average margin of preference has declined considerably in recent years. In 1957 the average margin was between 4 per cent and 5 per cent compared with 6 to 7 per cent in 1948 and 10 to 12 per cent in 1937.

The main factors responsible for this decline are said to be the Commonwealth Sugar Agreement, with its guaranteed prices, a slight overall reduction in tariff rates and the general rise in prices which has reduced the incidence of specific duties. Since the general price level in the future is more likely to rise than to fall, the conclusion is reached that tariff preferences are unlikely to resume their former importance. A changing pattern of trade is considered to be the only factor which could lead to a significant revival in the importance of tariff preference but such a change is considered unlikely.

Since most raw materials enter the United Kingdom free of duty whatever their source, the main

beneficiaries from Commonwealth preferences are some producers of foodstuffs and of manufactured goods. The average margin of preference on the latter in 1957 was 12 per cent (with Hong Kong the main beneficiary) while the average margin on foodstuffs was 6 per cent, the Channel Islands being an important beneficiary in respect of horticultural products.

The T.U.C. and Strikers

THE interim report by the T.U.C. General Council on Strikes and Shop Stewards published this week suggests stronger disciplinary action against shop stewards who foment unofficial strikes in defiance of agreements reached by the Unions, but is not very specific on methods of fitting joint stewards' committees into the general union structure. The report suggests that unions should try to widen the scope of agreements for the avoidance of disputes and should improve their information services in order to ensure that shop stewards are aware of union policy.

The report is based on a survey of recent strikes provided by affiliated unions and emphasizes the relatively small percentage of working time lost in this country through strikes. Excluding the printing strike it is stated that the average time lost per employee in 1959 was under half an hour. The most serious losses were in shipbuilding and the motor industry but even here they amounted to only two days and one day respectively. The report would in fact appear to be justified in claiming that this is not a situation which threatens the prosperity of Britain or its export trade, 'although the false impression created abroad by irresponsible comment at home must have done harm'.

This statement, and indeed the tenor of the report as a whole, appears, however, to underestimate the harm done to trade unions by unofficial stoppages which often result in annoyance to the general public of far greater importance than their effect on total production. The report is to be considered at the T.U.C. conference next month and no doubt its reception will determine the extent to which the T.U.C. will be prepared later to make more specific recommendations for dealing with unofficial strikes.

Buying a House

THE rising cost of houses, especially in the London area, are illustrated in the figures quoted by the Co-operative Permanent Building Society in its *Occasional Bulletin* for August. In the first six months of the year prices of second-hand houses mortgaged to the Society rose by 4½ per cent. The upswing was mostly in the case of the more expensive properties. Houses costing over £2,500 (London £3,000) rose by about 5 per cent during the six months, while those costing under £2,500 (London £3,000) rose by a little over 3 per cent in the same period. Average

¹ George Allen and Unwin, Ltd, London. 7s 6d.

selling prices of new houses rose by about 2½ per cent during the half-year.

In its previous bulletin, the results of an analysis of mortgages completed by the Society between October 1st, 1959, and March 31st, 1960, were given. The authors stated that there had been a 50 per cent increase in the number of families living in owner-occupied dwellings since 1951. Although precise figures are not obtainable, probably six million people in the United Kingdom are buying their own homes, compared with four million a decade ago.

The survey showed that most people are under 34 when they purchase a house; two-fifths are between the ages of 25 and 34, and two-thirds between 25 and 44. Most people embark on house purchase with an income of under £15 a week and they buy houses costing on the average £1,800. House buyers are spread over the whole range of occupational groups but salary-earners buy more new houses than wage-earners. A large number of deposits are for less than £200 and over one-half are below £300.

This is My Life . . .

by An Industrious Accountant

CHAPTER 39

IN a way, it was pleasant to return to the workaday routine again and check the progress of my current worries. There were the rapid visits to my directors first of all, each of them promising to reveal a new headache later on; then my private secretary with my private post, and a humorous running commentary on recent events; then my deputy with a rapid résumé of departmental affairs, which he seems to have handled admirably; all seemed in order. I settled down to sift the pile of 'For information' copies and to greet those genial souls who poked their heads around the door to say 'welcome back'.

Among the latter was our sales manager who hoped I'd enjoyed my holiday, and commented in the same breath that life was one long holiday for accountants anyhow. Luckily I had figures before me showing sales down by 8 per cent compared with last year, so he got an appropriate answer. Whereupon he grinned hugely and invited me to lunch in the canteen.

He had two U.S. visitors with him, with a nice contract in the background, so a very pleasant party developed. They were right out of a magazine illustration. One was short and plump and hairless, with a sallow puckered face, the other was a tall, rangy, crew-cut youngster of remarkable good looks; both had lurid check shirts and lightweight suits and very happy personalities. They had soft southern drawls, too, and complimented our Dimple Haig heartily: 'Mighty fine lickin'; sho' is mighty fine, Al.'

In my post-holiday mood I took to them enormously and found myself imitating their accents and idioms as a welcoming gesture. I told a couple of stories in full Texas dialect, but they somehow fell flat, and a silent mood seemed to grow on our visitors, which I failed to understand. At that stage, our factory manager joined the party with another visitor, and I felt a sudden vicious kick on my ankle from behind. It was our sales manager, his face convulsed with fury. 'Why the de'il are ye mocking them, mon? Their dander's up!', he whispered

fiercely. I tried to explain I was trying to make them feel at home, but he only went purple with indignation. 'Do you want to lose us a guid contrrrract!' So I shut up and prayed that the damage wasn't done already.

However, the new arrival was a Bradford man interested in selling worsted yarn spinning plant, and his rather quick sing-song accent bewildered our Texan friends. Al muttered to his buddy: 'Guess they must be Swedes', and promptly opened up with a flood of fluent Swedish. The factory manager, who had been in Norway in 1940, tried to co-operate by replying in halting Norwegian, and the rest of us lost the thread immediately. The two conversationalists maintained a rapid flow of pidgin-Scandinavian, with much gesticulation, and obviously with little success, till they finally finished exhausted with a hearty 'Skoll!' and beamed around on us.

So our sales manager had to sort them out. He did it with his usual ability, and all went well till he explained to them that the best English, as was generally accepted, was spoken in his ain toon, Auld Reekie. Everyone became heated except me, and neighbours from adjoining tables leaned over to tell us patronizingly several different right answers. Finally, Al appealed to me, the silent listener. It was my chance to make amends; the contract was at stake.

'My brother is quite a successful actor, you know; he's toured the civilized world playing Shakespeare and Shaw and the classics,' I told them loftily. 'He's definite that the best English, the nearest to the authentic Elizabethan, is spoken in the educated southern parts of the United States.' A short reference to Raleigh and Virginia silenced the doubters. Our trans-Atlantic cousins were charmed; harmony was restored.

The sales manager walked into my office later that evening and sat on the edge of my desk, fixing me with a baleful eye. 'So ye'd sell oor birthright for a mess of pottage! I always thought accountants preached accuracy,' he said accusingly. In consideration of the signed contract in his pocket, however, we decided that accuracy is only relative and the modern accountant must put service to management first.

Cardinal rule for ambitious accountants: Never tell stories in dialect to a mixed audience; better still, just never tell stories.

Reviews

Pension Schemes and Retirement Benefits

Second edition, by GORDON A. HOSKING, F.I.A., A.T.I.L., F.S.S., F.I.S. (Sweet & Maxwell Ltd, London. 50s net.)

Pension Schemes

by MICHAEL PILCH, B.A., F.C.I.I., and VICTOR WOOD, B.A., F.F.A. (Hutchinson & Co (Publishers) Ltd, London. 40s net.)

The expansion in the number and variety of pension schemes and the commensurate growth in the number of employees covered by them during the post-war period has not, unfortunately, been matched by a corresponding growth in the public's understanding of them, or of any simplification of the relevant tax law. The first edition of Mr Hosking's authoritative work appeared some four years ago and enabled practitioners to bring themselves up to date with the mass of post-war legislation in this complex field. Since then the 1956 Finance Act has implemented part of the recommendations of the second Millard Tucker Committee report and shortly the new National Insurance scheme is to come into effect. The second edition of Mr Hosking's book brings the readers of his first edition fully up to date. For others interested in this field who have not yet read this work it provides a comprehensive and comprehensible discussion of various types of pension scheme and the relevant tax advantages, as well as a thoughtful exposition of the principles of managing trust funds and their investment.

For beginners to the subject of pension schemes, and for those who wish to refresh their knowledge of the subject, a new and first-rate book by Messrs Pilch and Wood is the answer. Equally, it is the sort of book the expert can confidently recommend to the directors of any firm which is thinking about starting a pension scheme.

Trade Union Law

Sixth edition, by HARRY SAMUELS, O.B.E., M.A. (Stevens & Sons Ltd, London. 17s 6d net.)

Mr Samuels is well known as a writer on aspects of the law relating to industry, and the fact that this book, first published as recently as 1946, has now reached its sixth edition, shows how much it has been valued by those who require an easily readable exposition of the law relating to trade unions. The part played by trade unions in modern society is such that there are few people, if any, who are not affected more or less directly by their activities. As at present operated, they are open to, and receive, widespread criticism, and in consequence there are

many people besides lawyers who are keenly interested in their legal position. A number of professional examinations, moreover, require some knowledge of trade union law.

The needs of the many are met by Mr Samuels' book, which is admirably arranged and eminently readable. Here are easily to be found the answers to the questions which are so often asked; for example: When is a strike illegal, and does it make any difference that it is unofficial? In these days when the trade unionist is as likely as is the employer to be the victim of the union, particularly if he is ignorant of the extent of, and the limitations on, the protection given to unions by the law, he could scarcely be given better advice than to read this little book.

The Law of Contracts in a Nutshell

by ALAN GARFITT, LL.B. (Sweet & Maxwell Ltd, London. 7s 6d net.)

In the words of the preface this 'nutshell' supplies the student with a concise statement of the current principles upon which contracts are made in life and disposed of in litigation; history, discourse and finer details being omitted. It is undisguisedly and unashamedly a 'cram' book for examinations but it is none the worse for that. In a little over 100 pages it disposes of the subject by simple statements in tabulated form. Pocket-size and with an attractive plastic cover, one can imagine countless students pulling it out of their pockets in trains and elsewhere. For quick revision before the examination it will be most useful.

SHORTER NOTICES

THE PRINCIPLES OF EXECUTORSHIP ACCOUNTS (Fourth edition), by H. A. R. J. Wilson, F.C.A., and K. S. Carmichael, A.C.A. H.F.L. (Publishers) Ltd, London. 15s net. The new edition of this excellent guide for Intermediate examination students has been revised so as to incorporate changes in executorship law and practice up to July 1959.

MONEY AT WORK (*Second Edition*). Edited by Milton Grundy. Sweet & Maxwell Ltd, London. 18s 6d. In this second edition of a book which appeared some eighteen months ago, the text has been brought up to date and supplemented by a chapter on reversionary and other interests. The work consists of some twenty short essays dealing with different forms of investment, ranging from the orthodox financial investment to the more esoteric and unorthodox forms of investment such as pictures, silver, Chinese works of art, and wines. While no author within the limited space could do more than sketch the barest outlines of his subject, few accountants will be familiar with all these topics and the various authors' comments, though brief, are illuminating.

RICARDO ON TAXATION, by Professor Carl S. Shoup. Columbia University Press; Oxford University Press, London. 48s net. When one considers that over one-third of David Ricardo's classic study of the principles of political economy was devoted to taxation, it is remarkable what little attention has been paid in later

years to this part of his work. Professor Shoup's critical study fills the gap and professional economists will find this book of interest.

MODERN BANKING, by Professor R. S. Sayers. *Fifth edition*. Clarendon Press; Oxford University Press, London. 25s net. The fifth edition of this standard textbook differs from the preceding edition not so much in content as in a re-writing of some sections of the text. The thoughtful final chapter of the fourth edition has been replaced with a mere summary of the contents of the Radcliffe report. The new student will acquire the latest edition, but any reader with a fourth edition need not rush to replace it, good value though this textbook is.

RECENT PUBLICATIONS

PALMER'S COMPANY PRECEDENTS, seventeenth edition, Part 2, Winding-up Forms and Practice, by R. A. K. Wright and R. Buchanan-Dunlop. xciv+1168 pp. 10×6½. £7 7s net (£18 18s net complete set of three volumes.) Stevens & Sons Ltd, 11 New Fetter Lane, London, EC4.

'THE GLASGOW HERALD' MANAGEMENT NOTEBOOK, by F. de P. Hanika, with a Foreword by The Earl of Verulam, M.A., F.B.I.M., COMP.I.E.E., F.R.G.S., J.P. xv+184 pp. 9×6. 15s net. The Glasgow Herald, 65 Buchanan Street, Glasgow, C1.

POOLING OF LOCAL AUTHORITY LOANS, A Research Study by W. W. Ayling, F.I.M.T.A., and J. A. Neale, A.I.M.T.A. 157 pp. 9×6. 25s post free. The Institute of Municipal Treasurers and Accountants, London.

HOW TO FORM A PRIVATE COMPANY, twenty-sixth edition, by D. St Clair Morgan and Gordon E. Morris. 62 pp. 7½×5. 5s 6d net. Jordan & Sons Ltd, London, WC2.

THE LAW OF STAMP DUTIES (ALPE), twenty-fifth edition, by Peter E. Whitworth, B.A., Barrister-at-Law, and James Mackenzie, M.B.E. lxviii+664 pp. 9×6. £3 3s net. Jordan & Sons Ltd, London, WC2.

INTRODUCTION TO ECONOMICS, third edition, by Professor Alec Cairncross. xii+665 pp. 8½×6. 20s net, postage 2s 6d extra. Butterworth & Co (Publishers) Ltd, London.

WHAT EVERY TAXPAYER SHOULD KNOW ABOUT INCOME TAX, Fourth Edition, by David Shrand, M.COM., A.S.A.A., C.A.(S.A.). 108 pp. 8½×5½. Card covers. 12s 6d net. Legal & Financial Publishing Co, P.O. Box 3461, Cape Town.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Burdett-Coutts v. C.I.R.

In the High Court of Justice (Chancery Division)
July 12th, 1960
(Before Mr Justice BUCKLEY)

Estate duty - Reduced rate - Plant and machinery - Partnership - Dissolution by death - Whether interest in business passed on the death - Finance Act, 1894, Section 7 - Finance Act, 1914, Section 15 - Finance Act, 1940, Section 55 - Finance Act, 1954, Section 28.

On January 17th, 1957, the deceased entered into partnership with his son for their joint lives in a farming business. The capital of the partnership consisted of the net value of the assets of the deceased's farming business on October 11th, 1956, less the then liabilities. The son did not contribute any capital. The profits and losses were to be shared equally. The continuing partner had the option of purchasing the outgoing partner's share in the capital and assets of the partnership; and if the option was not exercised, the partnership was to be wound up under the Partnership Act, 1890.

The deceased died on February 22nd, 1957, and the partnership assets included plant and machinery used in the business and worth about £6,000. The business was a going concern. By a codicil to his will the father gave his share in the capital and assets of the partnership, and his share of any profits due at his death, to his son subject to any duties payable

in respect thereof, and consequently the son never exercised the option. At the date of the death there was £687 3s 11d of undistributed profits, and the capital accounts stood at £27,077 1s 10d for the deceased and £343 11s 11d for the son.

The plaintiffs took out an originating summons to determine whether the reduced rate of duty directed by Section 28 (1) of the Finance Act, 1954, was available in respect of the plant and machinery.

Held: an interest in the business passed on the deceased's death, and estate duty in respect of the plant and machinery was chargeable at the reduced rate.

C.I.R. v. Jackson

In the Court of Appeal
June 24th, 1960
(Before Lord Justice SELLERS and
Lord Justice PEARCE)

Income tax - Penalties - Pleading of failure without reasonable excuse to furnish particulars - Denial - Whether further and better particulars of defence required - Finance Act, 1922, Section 22 - Finance Act, 1927, Section 42 (10) - Income Tax Act, 1952, Section 232 - Rules of Supreme Court, Order 19, Rules 7, 19.

The plaintiffs instituted an action for penalties against the defendant, and pleaded that he had without reasonable excuse failed to furnish certain particulars. The defendant pleaded that he had not failed to furnish any such particulars without reasonable excuse, and denied that he was liable to any penalty.

Held: the defendant's pleading showed that he intended to set up an affirmative case, and that the plaintiffs were entitled to further and better particulars thereof.

Finance and Commerce

Whitbread

THIS week's reprint is from the accounts of Whitbread & Co Ltd, one of the great names in the brewing industry. Readers who work on the northern side of the City of London will probably know the headquarters of the company at the Chiswell Street brewery where Whitbread's beer has been brewed since 1742 under the supervision of seven generations of the Whitbread family and where the directors' apartment is the old family private residence.

In one respect, Whitbread's has stood aside from the modern trend of amalgamation in the brewing industry. Its sphere of influence has undoubtedly grown, and very substantially. But the growth of its influence has been through production and trading agreements with other brewers coupled with the investment of capital in their businesses rather than by take-over or merger.

A reflection of this can be seen in the balance sheet in the rise from £2,211,221 to £5,869,187 in trade investments.

Thus, in the July of these accounts, Col. W. H. Whitbread, the chairman, records, there was the trading agreement with Flowers Breweries by which Flowers offers the Whitbread Mackeson's stout to the public in all its houses and Whitbread offers Flowers' Keg Bitter in some of its own. Already a holder of Flowers' shares for many years, Whitbread's, on the conclusion of this agreement, increased its holding substantially, and Col. Whitbread joined the board.

Association

In the May of the accounts, the association with Brickwood's was strengthened. Brickwood's directors, says Col. Whitbread, quoting that company's chairman, 'became aware that speculators had taken an active interest in their company's equity and it soon became clear that 30 per cent of the ordinary stock had been collected and awaited a buyer'.

Brickwood's directors asked Whitbread's to buy the stock, which it did, and a new long-term trading agreement was negotiated.

Early in the year, a trading agreement with the Home Brewery, Nottingham, was negotiated. Agreements were also arranged with Stone's of Sheffield, and Starket, Knight & Ford of Bridgwater, and,

WHITBREAD AND COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT
INCORPORATING THE PROFITS OF THE HOLDING AND SUBSIDIARY COMPANIES FOR THE YEAR ENDED 31st DECEMBER 1959

	1959	1958
Interest on Debentures	£383,717	£270,076
Depreciation and renewals of Fixed Assets	558,652	547,164
Provision for Managing Directors' pensions	13,752	13,752
Remuneration of Auditors	6,534	6,585
Taxation on profits for the year to date see Note 4 annexed	£1,217,812	£1,120,189
Income Tax	1,376,817	1,432,732
Profits Tax	£3,557,284	£3,627,235
Net profit for the year carried down	£634,087	£594,200
Amount transferred To Revenue Reserve		
Dividends paid, accrued and proposed (less Income Tax)		730,295
To members of Whitbread and Company Limited		4,683
To minority Preference Shareholders of Subsidiary Companies		734,978
Balance of undistributed profit carried forward	823,130	630,085
	£2,120,568	£1,979,263
Profit on trading before dealing with the items in this Account		
Income from investments (gross)		£360,544
Trade investments		60,157
Government Securities		16,363
Quoted investments		3,236
War damage value payments		12,384
Bank deposits and loans		13,797
Adjustment in respect of prior years	452,684	255,164
	£3,557,284	£3,627,235
Net profit for the year brought down	£1,376,817	£1,356,926
Provision for taxation in prior years no longer required	93,666	12,441
Balance of undistributed profit brought forward from previous year less Amount carried to Taxation Equalisation Account	650,085	752,128
	£2,120,568	£1,979,263

WHITBREAD AND COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET 31st DECEMBER 1959

I CAPITAL OF WHITBREAD AND COMPANY LIMITED		1959	1958	I FIXED ASSETS see Schedule No. 2 annexed	1959	1958
		AUTHORISED	ISSUED AND FULLY PAID	PROPERTIES		
4½% First Cumulative Preference Stock	£625,000	£625,000	£625,000	Breweries	£1,104,216	£1,024,612
4½% Second Cumulative Preference Stock	339,600	339,600	339,600	Bottling depots	1,387,855	1,286,747
6% Third Cumulative Preference Stock	2,304,900	2,304,900	2,304,900	Malt houses, hop farms and sports ground	332,478	331,648
'A' Ordinary Stock	3,687,840	3,687,840	3,687,840	Licensed and unlicensed properties (freehold and leasehold, including fixtures and fittings)	7,943,586	8,103,209
'B' Ordinary Stock (transferable in units of 5s)	921,960	921,960	921,960		10,768,135	10,746,216
Unclassified Shares of £1 each	2,120,700	—	—	Plant and machinery	1,702,107	1,773,150
	10,000,000	7,879,300	7,879,300	Casks, vehicles, etc.	765,155	694,710
					£13,235,397	13,214,076

II RESERVES AND SURPLUS see Note 5 annexed

Capital Reserve	£151,736	106,656
Revenue Reserve	3,873,018	3,501,895
Undistributed profit	663,351	650,085
	4,688,105	4,258,636

III MINORITY SHAREHOLDERS' INTEREST IN SUBSIDIARY COMPANIES

Preference Shares and accrued Dividends

IV FUTURE TAXATION

Estimated Schedule 'D' liability 1960/61	746,329	990,845
Taxation Equalisation Account	113,124	142,232
	859,453	1,133,077

V DEBENTURES, DEBENTURE STOCKS AND MORTGAGES (SECURED)

(Note £3,250 of the Debentures redeemed are available for re-issue)

	9,545,034	7,110,036
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W. H. WHITBREAD } Directors
SIMON WHITBREAD }

A. E. WADDINGTON Secretary

II TRADE INVESTMENTS

at or under cost

5,869,187 2,211,221

III CURRENT ASSETS

Stocks of beer, malt, hops and other consumable stores as certified by officials of the Group and licensed valuers at or under cost

3,400,153

Sundry debtors, loans and payments in advance, less provision for doubtful debts and allowances

5,164,765

Government Securities (market value £1,554,551)

1,578,757

Quoted investments (market value £667,692)

494,569

Balances with Bankers and cash in hand

408,928

11,147,172

Less CURRENT LIABILITIES AND PROVISIONS

Bank overdraft

£1,136,744

Beer Duty, trade creditors, bills payable and accrued charges

3,378,021

Provision for current taxation

1,977,174

Provision for Managing Directors' pensions

163,633

Proposed Final Dividend on Ordinary Stock (less income tax) payable by Whitbread and Company Limited

479,995

7,135,567

Net current assets

4,011,605

5,101,575

£23,116,189

£20,526,872

£23,116,189

£20,526,872

more recently, with Bentley's Yorkshire Breweries of Leeds and Richard Whitaker's of Halifax (in which company Whitbread's have a 'substantial interest'). In April this year, there was a trading agreement with Charrington & Co.

Col. Whitbread says there has been considerable criticism from time to time of the policy of developing the company in this way on the grounds that it is being unfair to other shareholders in the associated companies. But, he adds, comparison of the price of these companies' shares before the association and the price that could be obtained now will show that both Whitbread's and their other shareholders have done 'pretty well'.

Growth

Shareholders in Whitbread's, he also indicates, have not done too badly. When the company opened its doors to public investors after the long history of the business in private ownership, the £1 shares were offered for sale at 88s. That was in 1949. Through various bonus issues, Col. Whitbread points out, they are now worth over 600s.

A further development came last June when Whitbread shareholders were given the opportunity to buy shares on a rights basis in the Whitbread Investment Co, the vehicle for the carriage of practically all the shares in the associated companies. In the process, the company besides increasing its

Whitbread and Company Limited and its Subsidiary Companies

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31st DECEMBER 1959

- Whitbread and Company Limited has guaranteed £1,250,000 Debenture Stock issued by Subsidiary Companies as to Principal, Premium and Interest
- The commitments for Capital Expenditure outstanding at 31st December 1959 for which no provision has been made, amount to approximately:

Whitbread and Company Limited	£169,000 (1958-£130,000)
Whitbread and Company Limited and Subsidiaries	£222,000 (1958-£172,250)
- Belgian Currency has been converted into Sterling at the rate of 140.00 Francs to the £ with the exception of Fixed Assets acquired prior to the date of devaluation (1949) which have been converted at 176.50 Francs to the £.
- In arriving at the taxation provisions, credit has been taken for the tax relief, attributable to Investment Allowances granted for taxation purposes, estimated to amount to approximately:

Whitbread and Company Limited	£39,000
Whitbread and Company Limited and Subsidiaries	£45,500

- Reserves: Movements have taken place during the year in the undermentioned Reserves:

Balance 1st January 1959 from:

Property Improvement and Development Reserve
General Reserve

Add Profit on purchase and redemption of First Mortgage Debenture Stocks 1964/84

Provision for improvements to properties no longer required

Profits less losses on realisation of:

Fixed Assets

Investments

Appropriation from Profit and Loss Account

Deduct Expenses and discount on issue of 5½% Redeemable Debenture Stock 1981/86

Losses less profits on realisation of:

Fixed Assets

Investments

Loss arising from reduction of Beer Duty

Loss on foreign exchange

Premiums on acquisition of shares and debentures in a subsidiary company

Goodwill purchased and written off

Whitbread & Co. Ltd

Reserves

REVENUE

£294,366

2,050,000

2,344,366

12,297

6,463

634,087

2,997,213

72,468

106,497

20,310

77,197

1,026

£2,719,715

Consolidated Reserves

CAPITAL

£106,656

106,656

1,999

43,081

151,736

72,468

106,551

20,310

80,347

1,026

22

£151,736

Reserves

REVENUE

£355,525

3,146,370

3,501,895

12,297

6,463

634,087

4,154,742

72,468

106,551

20,310

80,347

1,026

22

£1,000

£3,873,018

Whitbread and Company Limited and its Subsidiary Companies

SCHEDULE No. 2: FIXED ASSETS

BOOK VALUES AT LAST ACCOUNTING DATES

PRIOR TO 31.12.48

WITH ADDITIONS

SINCE AT COST

DEPRECIATION

AS PER

BALANCE

SHEET

Breweries

£1,112,135

£7,919

£1,104,216

Bottling depots

1,413,258

25,403

1,387,855

Malt houses, hop farms and sports ground

361,479

29,001

332,478

*Licensed and unlicensed properties (freehold and leasehold, including fixtures and fittings)

8,325,448

381,862

7,943,586

Plant and machinery

3,680,199

1,978,092

1,702,107

Casks, vehicles, etc.

1,814,718

1,049,563

765,155

£16,707,237

£3,471,840

£13,235,397

Certain of the properties included in this Schedule are the subject of claims for war damage compensation

*Freehold properties under this head have not been depreciated during the year. Expenditure on certain loose effects of a Subsidiary Company has been dealt with as renewals and charged to Profit and Loss Account

borrowing powers added about £2½ million cash to its resources and £1 million to its reserves. This again, says Col. Whitbread, 'shows the versatility of our trading arrangements in that shareholders are receiving the benefit of the investments in associated companies'.

One item in the accounts reflects the importance of the Christmas trade: bank overdraft - £1,136,744. The borrowing was to meet the large call for excise duty and was dissolved by the middle of January.

Among other points, Col. Whitbread refers to the fact that sales of canned beer are still less than 1 per cent of barrelage which, he says, may be due to the conservative attitude of the British people. But, 'however good the quality of the contents of the can, so far there seems to be a psychological attitude that it cannot be as good as from a bottle, I may say that I would not like to offer my friends claret out of a can!'

Trust Accounts

THE accounts of The Anglo-Celtic Trust Ltd for the year to April 5th, 1960, are the first since the merger with The Second Anglo-Celtic Trust Ltd

became effective on September 9th, 1959. 'Second' was put into liquidation on March 31st, 1960, and its income from September 10th, 1959, to that date was paid to Anglo-Celtic in the form of 'dividends amounting to £61,250 gross. Its income prior to September 10th represented pre-acquisition income and forms part of the share premium account in the Anglo-Celtic balance sheet, the amount of the pre-acquisition profits acquired, of course, being allowed for in the terms on which the capital of 'Second' was acquired by exchange for Anglo-Celtic stock.

The position shown in Anglo-Celtic's revenue account this time, therefore, is abnormal and this fact has been allowed for by the directors in determining dividend policy; they have been guided by the revenue which would have been available in a normal full year.

To show stockholders what this would have been, a combined revenue account of the two companies for the year to April 5th, 1960, has been provided showing the actual revenue received by them during the year. In this account, the expenses attributable to the 'Second' company have been estimated on a time basis.

CITY NOTES

HOPES of an early reduction in Bank rate to be followed later in the year by relaxation of credit pressure, confidence of a settlement of the political differences presently keeping the United Kingdom out of the European Common Market, the continued strength of sterling, a steady flow of good news from industrial companies and a shortage of stock (assuming famine proportions) have all combined to bring a return of near boom conditions to the industrial share markets.

This year the industrial equity market has proved the despair of the chartists and statisticians who have endeavoured to plot the course of what many of them believe is a bear market. After showing 'bearish' tendencies in spells, the market has each time recovered strongly and the present movement has taken some indices to new peaks and others to within touching distance of the early New Year top levels.

The near famine in supplies of good-class shares is now a particular influence on prices. So much stock is taken off the market permanently by institutional investors that the market either has to live hand-to-mouth or go short of stock.

At present prices, industrial shares would seem to be discounting the force of the majority of the influences already mentioned and to that extent they must be vulnerable to any possible 'bear' points, such as the failure of trade figures to show any improvement, a recession in the American economy and a delay on the part of the authorities here in introducing the easier credit conditions so freely forecast.

RATES AND PRICES

Closing prices, Wednesday, August 24th, 1960

Tax Reserve Certificates: interest rate (29.6.60) 3½%

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

June 17	£4 13s 7.34d%	July 22	£5 9s 9.27d%
June 24	£5 13s 7.40d%	July 29	£5 10s 10.96d%
July 1	£5 13s 6.14d%	Aug. 5	£5 11s 7.17d%
July 8	£5 13s 3.06d%	Aug. 12	£5 11s 5.85d%
July 15	£5 10s 2.49d%	Aug. 19	£5 11s 8.78d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	5-5½%	2 months	5 23-5 25%
Fine Trade Bills		3 months	5 22-5 26%
3 months	6½-7%	4 months	5 22-5 26%
4 months	6½-7%	6 months	5 22-5 27%
6 months	6½-7½%		

Foreign Exchanges

New York	2.80½-81	Frankfurt	11.71½-1
Montreal	2.71 16-18	Milan	1743½-8
Amsterdam	10.59½-6	Oslo	20.03½-04
Brussels	140.43½-8	Paris	13.76½-8
Copenhagen	19.36½-8	Zürich	12.10-1

Gilt-edged

Consols 2½%	45 3/8	Funding 4% 60-90	87 1/8
Consols 4%	66 1/8	Savings 2½% 64-67	82 1/8
War Loan 3½%	60 1/8	Savings 3% 55-65	88
Conversion 3½%	60 1/8	Savings 3% 60-70	78 1/8
Conversion 3½% 1969	83 3/8	Savings 3% 65-75	71 1/8
Exchequer 5½% 1966	97 1/8	Treasury 2½%	44 1/8
Funding 3% 66-68	81 1/8	Treasury 3½% 77-80	72 1/8
Funding 3% 59-69	81 1/8	Treasury 3½% 79-81	70 1/8
Funding 3½% 99-04	64 1/8	Victory 4%	91 1/8

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Building Societies Act, 1960

SIR, — Section 11 of the Building Societies Act, 1960, prescribes that the Chief Registrar may make regulations governing the investment by building societies of their surplus funds.

A question in the House of Commons, reported in *Hansard* for July 29th, 1960 (*The Accountant*, August 6th, page 189), elicited an answer from the Economic Secretary to the Treasury that the first regulations to be made would be of a certain type.

Among these was to be a provision that where a society's holdings of investments taken at book value exceeds $7\frac{1}{2}$ per cent of total assets, presumably including these book values, any further investments may be made in stocks with a longer redemption period.

Is not the use of book value as a standard of measurement somewhat absurd?

Many societies hold $3\frac{1}{2}$ per cent War Loan, bought at par, and still shown in the balance sheet at par.

Others have $3\frac{1}{2}$ per cent War Loan bought at lower prices or written down to lower prices.

Others hold shorter-dated stocks with a market value in excess of purchase price or book value.

Is it considered reasonable that those in the first category should be allowed to invest in longer-dated stocks than those in the second and third categories, or are all societies going to write up their stocks or at any rate find it inexpedient ever to write them down?

Surely the regulations should be made so as to operate in the same way for everybody and this implies the use of market value as the standard governing the further investment of funds in excess of $7\frac{1}{2}$ per cent of total.

Yours faithfully,

London, W1.

A. V. PAGE.

Additional Assessments

SIR, — I read with interest the decision in the *Cenlon Finance Co Ltd* tax case on page 259 of *The Accountant* last week.

I am somewhat surprised to note that the additional assessments were invalid on the grounds that the settlement under Section 510 operated to prevent the application of Section 41.

I took part in an appeal some years ago, before the General Commissioners, in which it was held *inter alia* that although Section 510 settlement determined a first assessment, it did not prevent the making of an additional assessment for the same year but only prevented a reopening of the first assessment.

Counsel for the appellant had argued that the assessment was final, but this was overruled.

Yours faithfully,

J. R.

Basic Systems Simplification

SIR, — In reply to Mr Griffiths's letter in last week's issue, commenting on my article 'Basic systems simplification', the case for the open invoice system as against traditional sales ledger records must always depend upon the particular requirements of the business management. However, in practice it has proved most effective where customer accounts are 'clean', i.e. they are settled regularly without excessive deposit payments or adjustments.

As regards Mr Griffiths's other points:

- (1) Slow-paying customers may be expedited equally well under either system.
- (2) Paid invoices are usually filed in paid files by customers to provide an original document record of all transactions. This data may subsequently be reviewed or summarized in any way required by management.
- (3) For billing and credit control a brief specific record card should be used to show clearly: (a) customer data; (b) credit classification and limits; (c) any collection history; (d) sales volume as and when computed. This record could be designed as a more precise tool for credit control than the traditional sales ledger.
- (4) I agree that customer monthly statements, and indeed a customer ledger account, serve a very useful purpose where items remain disputed and overdue for long periods. And also I agree that some customers will not at first pay if no monthly statement is sent to them. However, I do believe:

- (a) That the part of the monthly statement which lists invoices not overdue is of doubtful value. A listing or copies of overdue items is more to the point.
- (b) Old standing balances could better be expedited by specific letter than by the monthly statement.
- (c) Cash discounts may equally well be calculated on remittances for individual invoices or batches of invoices.
- (d) Over/under cash receipts and unrelated receipts should be dealt with at the time of receipt and not left until the monthly statement. On so many occasions ledger accounts can become dumping places for unexplained debits and credits which have to be sorted out at a later date. This task often falls to the auditor.

In the United States, customers' monthly statements have largely disappeared because most customers operate the voucher system, pay against invoices or batches of invoices, and also because discount terms often encourage payment within days of receipt of the goods. This development has not apparently caused undue confusion.

- (5) Normal discounts do not require journal adjustments since the gross amount of the receipt is credited against the customer's unpaid invoices.
- (6) Provided internal control is adequate the auditor's problems are a rather less important consideration than effective data processing.

Indeed, if the auditor wishes to verify customer balances by external evidence then his proper course would be to circularize the customers and obtain direct confirmations.

Yours faithfully,
ROBERT G. A. BOLAND,
Burgess Hill, Sussex. B.A., F.C.A., C.P.A.

Electronics in the Office

Desk-sized Computer

THE Royal Precision LGP 30 computer, which is operated by a Michigan firm of C.P.A.s as a part of their management accounting services and which was referred to in our feature 'The Accounting World' on July 30th, is now available in this country.

The LGP 30 is a serial, single address, fixed-point digital computer with internally stored programme. It operates in binary, but input and output can be decimal or sterling, the computer effecting its own conversion. Storage is on a magnetic drum (4,096 words of 31 bits plus a spacer bit, equal to 9 decimal digits) which also has three recirculating registers, a counter register, an instruction register and an accumulator. There are no timing problems and the transfer of data within the computer is substantially reduced under this system. An oscilloscope on the control panel shows the contents of all three registers at any moment.

Input is by electric typewriter with paper tape reader and punch. The typewriter has a standard keyboard and data and instructions may be input manually as well as fed into the computer from paper tape at 10 characters per second. Output is either printed by the typewriter or punched on to tape, or both, at the same speed; the high-speed reader operates at 200 characters per second and the punch at 20 characters per second. Format can be controlled either by the typewriter or by the programme.

The LGP 30 has been designed for reliability, simplicity of operation and versatility. It is desk-sized and mounted on castors for ease of movement. No installation is required other than an electric power point, nor are special operating personnel called for, as programming can be mastered in two to three weeks. Over 400 have been installed in the U.S.A. and Europe, on a wide range of scientific, engineering and business applications. Marketed by Royal McBee International, its purchase price is £18,000, or £20,750 with a photo-electric reader and paper tape punch, and the rental is £540-£625 per month.

Bull C.M.B. Magnetic Code

AT the invitation of De La Rue Bull Machines Ltd, representatives of some of the leading United Kingdom cheque printers and cheque paper-makers, including the Bank of England printing works, visited Paris recently to see a demonstration of the new Bull C.M.B. code. The code is one of the magnetic codes at present under consideration by the British Clearing Banks for adoption as a 'common language'

in the direct reading of cheques and other documents for data-processing purposes.

Advantages claimed for the Bull C.M.B. Code include: cheques and similar documents can be printed with characters entirely normal in form and suitable for automatic data processing and the need for transcription of data from documents to a card and repetition of the process for checking purposes is dispensed with. Characters are equally legible and of equal use to bank staff, clients and data-processing machinery and it is stated that the code is also unique in being available for alphabetic characters as well as numerals and for use with any type of data-processing equipment.

Data-processing System for Insurance Company

THE Norwich Union Insurance Society has placed an order for an ORION data-processing system to be supplied by Ferranti Ltd. The equipment, involving a total cost of over £250,000, will be installed in the Society's new head office building now being erected in Norwich.

It is anticipated that the computer will assist initially with the Society's pension schemes business and that this will be followed by an integrated system for 350,000 policies in the United Kingdom portfolio. A complete record of each pension scheme and each individual policy will be held on magnetic tape, the whole of which will be processed daily.

The decision follows a thorough investigation into the desirability of the use of an electronic computer by the Society. Much detailed planning remains to be done to prepare for its introduction. It is expected that productive work will commence in January 1963.

Course on Computers

ELECTRONIC computing systems' will be the theme of a course, in two parts, to be held at the Sir John Cass College, Jewry Street, Aldgate, London, EC3, commencing on Wednesday, October 26th. Two lectures will be given each evening, the first from 6.15 p.m. to 7.15 p.m., and the second from 7.30 p.m. to 8.30 p.m.

The course is intended for executives and others interested in the commercial applications of computers and no prior knowledge is assumed. The first part of the course will consist of twelve lectures on 'The construction and operation of electronic digital computing systems designed for commercial purposes' and will give an appreciation of the programming operation of computers in general. Part two of the course, which will commence on Wednesday, January,

18th, 1961, will consist of twelve lectures on 'Some commercial applications of electronic digital computer systems'. The two courses should be useful for those who may have to make preliminary assessments of the suitability of computers for specific commercial tasks.

The fee for each course is £1 for those residing in the administrative county of London. Application for enrolment forms should be made to the secretary, Sir John Cass College, prior to the opening date of the course.

High-speed Computer

IN announcing its new digital computer, the ELLIOTT 503, Elliott-Automation state that with a switching time of only 5 milli-micro seconds, the system is, by present-day standards, one of the fastest computers to be marketed anywhere. The high switching speed gives it a working capacity incomparably greater than that of conventional types of machines.

The company is producing a complete computer system for the 503 which incorporates an unlimited extension of the storage facilities by means of new high-speed magnetic tape storage units as well as a wide range of input and output equipment and special keyboards for the running of parallel programmes. The capacity of the new computer is such that, by time-sharing, it will be possible for computers of this type to undertake a number of different jobs simultaneously.

A full range of automatic programming routines, including internationally agreed autocoding systems, will be available for the new computer. With the high work capacity which results from the ultra high speed of operation of the machine, the unit cost of work done is a fraction of that incurred on other machines of comparable size both in this country and in the U.S.A.

The first applications for a machine of this speed and work capacity are likely to be for scientific work in research establishments, universities and technical colleges.

Notes and Notices

APPOINTMENTS

Mr B. M. Lindsay-Fynn, B.COM., F.C.A., has been appointed a vice-chairman of Northern Breweries of Great Britain Ltd.

Sir Joseph Latham, C.B.E., F.C.A., formerly deputy chairman of the National Coal Board, has been elected a director of Associated Electrical Industries Ltd.

Mr C. M. Carr, F.C.A., is to become joint managing director of Cooper, McDougall & Robertson Ltd on September 1st.

OBITUARY

Leo T. Little, B.Sc.(Econ.)

By the death of Leo Little last Monday, at the early age of 50, the profession has lost one of its most able and devoted *rapporteurs*. As editor of *Accountancy* for over twenty years, under the auspices of both the former Society of Incorporated Accountants and, since integration, The Institute of Chartered Accountants in England and Wales, Leo Little had developed and maintained a professional publication of a high order.

Mr Little joined the staff of the Society as deputy secretary in 1937 and in the following year the editorship of *The Incorporated Accountants' Journal* was committed to his charge. In October 1938 he completely transformed the layout and composition of the *Journal* which thereafter was published under the title of *Accountancy*. During the war he joined the Ministry of Aircraft Production for a time, but was overtaken by the ill health which dogged him for the remainder of his life. Soon after the war, he returned to the Society, but his indifferent health obliged him to give up his administrative work, though he continued his editorship on a part-time basis until the present time. In spite of his health, however, he did not spare himself and his other activities have included: part-time lecturer in economics at University College, Exeter,

the joint editorship of the Society's former publication *Accounting Research*, and free-lance journalism.

We extend our deepest sympathy to his wife and family.

LOCAL LOANS FUND: INTEREST RATES

The Treasury has announced that loans advanced from the Local Loans Fund as from August 20th, 1960, will carry the following rates of interest:

	Per cent
Loans for not more than five years	6½
Loans for more than five years but not more than fifteen years	6½
Loans for more than fifteen years but not more than thirty years	6½
Loans for more than thirty years	6½

This is the third increase to be made by the Treasury this year in the rate of long-term advances to be made from the Local Loans Fund. The last adjustment was on July 16th when the increases ranged from ½ per cent for short periods to ¾ per cent for long periods.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

List of Members 1960

The *List of Members 1960* of The Institute of Cost and Works Accountants, now published, gives details of membership corrected up to November 30th, 1959.

The new book, which extends to 598 pages, contains alphabetical and topographical lists of members, together with information about the Institute's branches, sub-branches and students' societies and its eight 'centres' in South Africa and Southern Rhodesia. The names of past presidents are included, as well as the composition of the Council and of the Institute's committees.

RETIREMENT PENSIONS

The Minister of Pensions and National Insurance has asked the National Insurance Advisory Committee to review the conditions on which bigger retirement pensions can be earned for married women and widows because they or their husbands continue to work and pay full contributions beyond the minimum pension age (65 for men, 60 for women).

The Committee will consider representations on the question which should be submitted by October 31st, 1960, to the Secretary, National Insurance Advisory Committee, 10 John Adam Street, London, WC2.

Payment of 1947-48 Contributions

People who are receiving or will receive a reduced retirement pension because they did not pay contributions for the last contribution year of the old contributory pensions scheme - July 1947 to July 1948 - may in certain circumstances now pay their back contributions for that year to qualify for a higher rate of pension. This is the effect of regulations¹ made by the Minister of Pensions and National Insurance, which came into force on August 1st, 1960.

The rate of an individual's retirement pension depends on his yearly average of contributions from the time he entered insurance to pension age, or from 1936 if he entered insurance before that year. A reduced rate of pension is paid if the yearly average is less than fifty, but at least thirteen.

SOUTH WALES AND MONMOUTHSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

At the annual general meeting of the South Wales and Monmouthshire Society of Chartered Accountants held recently, Mr T. W. Pickard, F.C.A., a partner in the firm of Gordon Thomas & Pickard, Chartered Accountants, of Swansea and Cardiff, was elected President of the Society for the ensuing year.

Articled to Mr Robert H. Coath, a partner in the firm of T. Howard Coath & Sons, Chartered Accountants, of Cardiff, Mr Pickard was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1931 and was elected a Fellow in 1951.

He was admitted a member of The Society of Incorporated Accountants in 1947 and was elected to fellowship of the Society in 1950.

After qualifying in 1931, he was associated for a number of years with the Cardiff departmental store of James Howell & Co Ltd, as assistant accountant, and from 1940 to 1945 he served in the Directorate of Army Contracts at the War Office. He became a partner in his present firm in 1946.

Mr Pickard has been a member of the committee of the South Wales and Monmouthshire Society since 1953 and is also the present librarian of the Society. He is honorary secretary of the Cardiff and District Chamber of Trade and for some years has served on

the National Chamber of Trade. He is honorary auditor and a member of the Llanishen Golf Club.

Other officers for 1960-61 are:

Vice-President: Mr Edgar T. Shepherd, F.C.A.

Hon. Secretary: Mr Wilfred H. Jones, B.COM., A.C.A., 6 Christina Street, Swansea.

Hon. Treasurer: Mr H. E. Halliday, F.C.A.

Hon. Auditor: Mr W. J. James, F.C.A.

Report for 1959

The Society's forty-seventh annual report for the year 1959 records a total membership of 436 compared with 443 in the preceding year.

The report states that where lectures have been arranged there has been a relative lack of support and this is a matter of some concern to the committee. It is hoped, however, to provide further programmes during 1960-61 and the possibility is being explored of arranging some lecture meetings jointly with the students' societies. The committee would be glad to receive suggestions from members regarding any steps which might be taken to benefit Institute members - practising or non-practising - within the area.

Two golf meetings were held during the year in the spring and autumn both of which were well attended. The Society's annual dinner held at *The Park Hotel*, Cardiff, was attended by 229 members and guests.

SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

Students' Residential Course

The South Eastern Society of Chartered Accountants has arranged to hold its eleventh annual students' residential tuition course in Brighton, as follows:

Intermediate students' course, September 19th-23rd.

Final students' course, October 3rd-7th.

The success of previous courses has firmly established this annual event as a substantial contribution to the educational facilities available to students. Lectures are given entirely by lecturers from the main accountancy correspondence schools, and the programmes include evening buffet meetings and dinners.

Arrangements for hotel accommodation in Brighton can be made, if desired, for students attending the course, to whom a grant is made (details on registration forms) towards the cost of accommodation and travelling expenses. The fee for the course is £3 15s.

All students, whether or not within the area of the South Eastern Society, wishing to attend the course, should apply as soon as possible for registration forms and further particulars, to Mr T. T. Nash, F.C.A., 33 Lawrence Road, Hove, Sussex.

IMPORTANCE OF STUDENTS' SOCIETIES

Last autumn the Council of The Institute of Chartered Accountants in England and Wales issued a new statement - replacing a former one published in 1951 - dealing with the importance of students' societies in the training of articled clerks (see *The Accountant* of October 24th, 1959). Extracts from the statement have now been incorporated in a leaflet setting out the rights and duties of both principals and articled clerks. The leaflet is being issued to all newly-articled clerks and their principals and copies are also available at student society libraries.



Mr T. W. Pickard

¹ The National Insurance (Pensions, Existing Contributors) (Transitional) Amendment Regulations, 1960, S.I. 1960, No. 1226. H.M.S.O. Price 3d.

CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The Chartered Accountants' Golfing Society played a match against the London Chartered Accountant Students' Society at West Hill Golf Club recently. The Students' Society has always been keenly interested in sporting activities but this is the first occasion on which they have entered the golfing field. The event was a great success and was much enjoyed by all the players.

The Students' Society produced a very strong team and the chartered accountants experienced the greatest difficulty in avoiding a defeat. The course, which is an excellent test of good golf, was in first-class condition and apart from an occasional shower the weather behaved itself extremely well.

The teams consisted of five pairs each and ten foursome matches were played. The result was a draw, 5 all.

Results (chartered accountants' names first):

Morning:

- J. R. Briggs and S. G. Sillem beat R. White and J. McA. Jamieson, 4 and 3.
J. M. Kaye and H. C. Staines lost to R. J. Wreford and R. Borneman, 3 and 2.
C. I. Steen and D. W. Gibson lost to D. S. Thompson and A. T. Webb, 5 and 4.
H. W. Pitt and J. B. Pittman beat A. Bolsom and I. Richards, 6 and 5.
J. T. Isherwood and E. Head lost to W. M. Caldwell and A. A. Ross, 5 and 3.

Afternoon:

- Briggs and Kaye beat White and Wreford, 1 up.
Sillem and Staines lost to Borneman and Jamieson, 2 down.
Gibson and Pitt lost to Thompson and Caldwell, 1 down.
Newcombe and Isherwood beat Richards and Webb, 2 and 1.
Head and Pittman beat Bolsom and Ross, 2 and 1.

COMPUTERS IN INDUSTRY**Students and Graduates Convention**

'Computers in industry' will be the theme of the Fourth National Students and Graduates Convention which is to be held at the University of Birmingham on September 17th.

The Lord Mayor of Birmingham will extend a civic welcome and the Rt. Hon. the Earl of Halsbury will be the principal speaker. His subject will be 'Computers simply explained' and will give a comprehensive introduction to the construction and application of computers.

Lord Halsbury's paper is followed by a paper on 'The use of computers for optional planning', by

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 29TH, 1885

A Weekly Note

The Annual Accounts of the Chamberlain of the City of London were issued as a parliamentary paper a few days ago. The duties on coal and wine amounted to £385,987, and the expenses of management were £4,322, the balance being paid to the Thames Embankment and Metropolis Improvement Fund. Another of the most important sources of revenue, the "City's duty on coals," yielded £167,374, and shows a balance transferable to surplus account of £85,678. The surplus account shows a total of £91,644 available for the discharge of loans, and of this £60,000 was applied in respect of loans in connection with the Holborn Valley Improvement, and £28,000 by transfer to bondholder's accounts, leaving a balance of £3,644. The City of London grain duty yielded £39,800, which was chiefly devoted to the purchase and maintenance of open spaces; Epping Forest absorbing £15,736.

Mr C. M. Berners-Lee, of Ferranti Ltd. This will be followed by a look into the future when Mr W. G. Ainslie, lecturer in engineering production in the University of Birmingham, will present a paper on 'Research on production control by analogue computer'. In parallel with Mr Ainslie's paper two films will be shown on computer control applications.

The convention will conclude with a paper given by Mr G. M. Davis, of English Electric Ltd, on 'Computers retrospect and prospect'. There will be opportunity for discussion after each paper and also a general 'brains trust' at which the speakers will form a panel to answer questions.

U.S. INVESTMENT IN EUROPE

Europe Today is the title of an interesting and attractively produced booklet on the European Economic Community as seen through the eyes of The First National City Bank of New York.

The booklet deals with United States investment in Europe and among other details sets out wage rate comparisons, productivity and wage costs per unit, money rates, and information on consumer spending. Appendices give details of United States trade with Western Europe by country and commodity with E.E.C. and E.F.T.A.

Copies of the booklet are available from The First National City Bank of New York, 17 Bruton Street, Berkeley Square, London, W1.

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Results of Examinations held in June 1960

FINAL EXAMINATION

SECTION I

(in order of merit)

First Place and Prize: Kelly, M. P., Blackrock.

Second Place: Mistry, C. M., London.

Third Place: Reynard, D., Leeds.

Fourth Place: Welton, L. P., London.

(in alphabetical order)

Adegboye, T. O., Bristol.
Adeyemo, M. A., London.
Alalade, D. O., Leeds.
Aofolajuwonlo, O. A., Leeds.
Archer, B. K., Old Hill.

Baker, D. J., Bournemouth.
Baker, K. H., Billericay.
Baldwin, C. D., Whitstable.
Ball, K., Doncaster.
Barnes, R. J., Chelmsford.
Barratt, R., Doncaster.
Barron, J. F., Maidstone.
Beech, C. H., Birmingham.
Borrow, J. E. P., London.
Bowen, G. J., Hull.
Brading, E. W., Salisbury.
Braham, G., London.
Bremner, J. W., Forfar.
Breslin, E. N., Dundalk.
Brown, I. C., Kingston upon Thames.
Bundey, I. O., Helsby.
Burke, J. B., London.

Carter, E., Newcastle upon Tyne
Carver, A. C., Northwood.
Casey, D. P., Drogheda.
Charles, K., Newport, Mon.
Cherryman, D. A., Worcester Park.
Clarke, R. C. H., London.
Cohen, B., Glasgow.
Coleman, P. D., Swansea.
Collins, F. S., Birmingham.
Collins, L. J., London.
Cook, D. J., Tilehurst.
Coppin, R. R., Uxminster.
Cottis, D., Portslade.
Crean, A. J. B., Liverpool.
Cserie, W. O., London.
Crouch, P. A., Hailsham.

Daly, C. A., London.
Davies, J. B., Gillingham.
Davies, J. J., Haverfordwest.
Davies, W., Hanworth.
Davison, R. B., Dublin.
Desbois, I. E. A., Orpington.
Dial, B., London.
Dixon, T. R., Newcastle upon Tyne.
Djamasi, M. H. A., London.
Doe, J., Saltburn-by-the-Sea.
Dosani, A. H. M., London.
Doughty, J. B., London.
Doyle, G. A. M., Richmond.
Dunks, D. H. A., Rickmansworth.
Dyer, L. M., Bristol.

Efiong, E. O., Leeds.
Egan, K. J., Manchester.
Evans, I. R., Billericay.
Evans, J. A., Tipton.
Evans, J. B., Sutton Coldfield.

Fagan, S. F., Dublin.

Ferguson, J., Glasgow.
Figueiredo, A. P., London.
Fisher, J., Ayr.
Flanagan, J., Portlaoise.
Flude, G. J., New Malden.
Ford, R. B., London.
Forster, R. N., Nottingham.
Foulkes, R. E., Norwich.
Fraser, R. C., Caterham.
Freeman, H. G., Sevenoaks.
Friend, H. P., Rochdale.
Frost, J. G. (Miss), Cardiff.
Fryer, L. A., Gloucester.

Gallagher, J., Glasgow.
Gates, R. S., Pinner.
Geary, B. E. (Miss), Hounslow.
Gilmore, R. J., Wirral.
Graver, R. L. (Miss), Norwich.
Grew, C. M., Wednesbury.
Griffiths, G., Halesowen.

Hall, A. F., Preston.
Hall, K. P., Dundalk.
Hancock, D. M., Sutton.
Hardman, D. J., Luton.
Harris, P. W., Arundel.
Harrison, A. J. E., Staines.
Hartley, D. L., Preston.
Haslam, T. R., Potters Bar.
Hastilow, M. T., Birmingham.
Haywood, B., Leicester.
Hibberd, C. R. J., Southsea.
Hill, R. F., Brownhills.
Hollister, B. G., Bristol.
Holmes, P., Hull.
Holmes, W. T., Brentwood.
Hughes, D. J., Southwick.
Hundley, C. W., Hagley.
Hunt, R., Bath.

Iden, D. C., London.

Jacobs, C. A., Leeds.
James, W. L. T., Leeds.
Johnson, L. A., West Bromwich.
Johnston, D. S., London.
Johnston, J., Newton Abbey.
Jones, D. E., Basildon.
Jones, G. A., Birmingham.
Jones, K. A., Burnley.

Kearney, E. A., Doncaster.
King, R. M., Glasgow.
Knifton, M. (Mrs), Coulsdon.

Landsborough, P. C., London.
Lawal, N. A., Leeds.
Leamy, M. J., Manchester.
Leese, F. J., Chesham.
Levett, M. E., Erith.
Lilley, N. R., Wolverhampton.
Lowe, J. E., Chelmsford.

McCall, J., Hebburn upon Tyne.

McEvoy, M., Whiston.
McLauchlan, W., Girvan.
Male, P. J. W., Bristol.
Mallett, A. J., Beckenham.
Marshall, E. O., London.
Martin, J. B., Clontarf.
Matthews, A. A. N., Weybridge.
May, H., Harrogate.
Measham, A. F., Sutton Coldfield.
Mercy, R. C., Leicester.
Middleton, R. P., London.
Mitchell, I. J., Redruth.
Moore, A. L., Sidcup.
Moore, L., Bury.
Moore, N. H., London.
Moppel, H., Rainham.
Morgan, J. A., London.
Morrell, K. T., Reading.
Morris, L. R., Cardiff.
Murray, J. S., Montrose.

Newbold, P., Oxford.
Noble, R. M., Smallfield.
Nokes, J. H., London.
Ocansey, S. R. T., Accra.
O'Connor, R., Belfast.
O'Driscoll, D. L., Cork.
O'Flynn, F. L., London.
Oguntimehin, S. O., Headington.
O'Kelly, A. N., London.
Osoba, G. O., Leeds.

Page, A. E. F., London.
Page, M. L., Maidenhead.
Palmer, A. F., Newmarket.
Parker, D. L., Haywards Heath.
Parrott, J. F., New Malden.
Parsons, E. A. W., Aylesbury.
Pearce, D. G. J., Newbridge.
Pearce, T. H., B.F.P.O. 40.
Pilbean, A. F., Yalding.
Pizzey, A. V., Richmond.
Plant, M. N., London.
Polston, K. A., London.
Potts, W., Macclesfield.
Poynter, L. G., London.
Prater, L. M., Woodley.
Proctor, B. F. J., London.

Rasmussen, P. W., Epsom.
Raynaud, S. L., London.
Reason, D. R., York.
Riley, F. D., Ilford.
Roberts, K. G., Neath.
Robertson, J. M., Kelso.
Robinson, G. E., Birmingham.
Rodwell, P. S., Grimsby.
Roff, E. D., London.
Ross, K. S., Edinburgh.
Ryan, M., London.
Ryland, D. J., London.

Sales, R. L., Maidstone.
Sambrook, R., Oxford.

Samuel, E. K., Llanelly.
Schluter, H., London.
Shaw, P. J., Orpington.
Shaw, R. A., Blackpool.
Sheppard, P. A. J., Dover.
Simpson, R., Hyde.
Skidmore, C. J., Tipton.
Smith, D. L., Shrewsbury.
Smith, M. R., Wokingham.
Smith, R. A., Leicester.
Speedman, J. A., Glasgow.
Spencer, J. B., Rochester.

Steele, R. J., Belfast.
Stimpson, J. M., Great Bookham.
Stirrat, J. C., Ayr.
Stone, V. C., London.
Stubbs, G. S., Tynemouth.

Tanner, A., Bristol.
Taylor, J. A., Ilkeston.
Tobin, F., Luton.
Turner, J. A., London.

Vincent, A. C., Cranham.

(408 candidates failed)

Vine, J. F., Watford.

Walding, T., Northampton.
Walker, P. H., Walsall.
Wheatley, W. B., Blyth.
Wheat, G. H., Chelmsford.
White, W. A., Hollybush.
Widdowson, E. G., Cardiff.
Wilkie, H., East Kilbride.
Williams, J. R., Enfield.
Williams, L. H., Chester.
Windsor, N. R., London.

FINAL EXAMINATION

SECTION II

(in order of merit)

First Place and Prize: Shalders, J. P., Brighton.

Second Place: Holland, D. F., Bushey.

Third Place: Farmer, E. R., Reading.

Fourth Place: Detheridge, W., Wolverhampton.

(in alphabetical order)

Ackland, M., Bexleyheath.
Afolabi, M. A., London.
Allatt, J., Batley.
Anibaba, M. O., London.

Babb, T. W., Cheadle.
Barnard, G. W., London.
Bassey, E. U., Portsmouth.
Batchelor, G. V. R., London.
Beattie, J. H., Glasgow.
Bell, R. J., Woking.
Bernard, P. H., Pinner.
Berryman, R. T., Penzance.
Biddick, D. D. L., Swansea.
Boakye-Agyeman, S. I. K., London.
Bowes, R. N., London.
Boyle, J. F., Stoke-on-Trent.
Brassett, P. G., Upminster.
Brierley, A. D., Rochdale.
Britten, E. C., Isleworth.
Broomfield, M. J., London.
Burnhill, G. C., Leeds.
Burns, T. W., Edinburgh.
Burston, E., High Wycombe.
Butterworth, L. A., Havant.

Cabot, J. H. F., Kesgrave.
Campbell, S. A. A., Sunderland.
Cannon, R., Southsea.
Carney, J. J., Belfast.
Carr, N., Birmingham.
Caton, E., Poulton-le-Fylde.
Charlesworth, J. C. T., West Molesey.
Cheeseman, A. W., Bromley.
Chishti, M. H., London.
Clark, I. R., Wishaw.
Coles, J. N., Harrow.
Colley, D., Wakefield.
Collins, M., Oxhey.
Cooper, R. M., Ickenham.
Coughlan, D. G. J., Banbury.
Crabb, D. J., Purley.
Cruse, B. R., Dagenham.
Cunning, R., Dunfermline.
Cunningham, D. A., Belfast.

Dennis, J., Winchester.
Desborough, P. J., Northampton.

Dingle, G. H., Macclesfield.
Douglass, E. G., London.
Dunlop, J., Loanhead.

Ellingham, D. R., Luton.
Ewart, J. F., Cheltenham.

Fahey, A., Prescot.
Fallows, J. W., London.
Farinde, J. O., London.
Fitch, J. M., Coventry.
Flach, J. L., Watford.
Forrest, A. (Miss), Blyth.
Froggatt, A., Sheffield.

Giles, J. A., Stowmarket.
Gill, K., Skipton.
Goode, A. B., Stroud.
Gough, T. L., Gloucester.
Gowen, C. J., London.
Granger, D. H., Sutton Coldfield.
Grasmeder, R. A., Ilford.
Gray, H. S., Larkhall.
Gregoire, E. W., Leeds.
Griffiths, N. L., Manchester.
Groves, A., London.
Gundry, J. B., London.

Halle, N., London.
Harman, A. R., Bromley.
Harold, J. R., Glasgow.
Harrison, G. B., Wakefield.
Hedderley, J., Oxford.
Hillcoat, A., Hornchurch.
Hiscott, J. A., Urnston.
Hodges, H. G. H., Longfield.
Horgan, G. D. T., Cork.
Howe, B. W., Bournemouth.
Hughes, G., Port Harcourt.

Iacovides, A. I., Crawley.

James, H. C., Bath.
Janaway, A. E., Esher.
Johnston, G. M., Falkirk.
Joschpe, G., Salford.

Keyworth, E. A. C., Halifax.

Khan, A. A., Pakistan.
Knight, R. C. E., Blackpool.

Lambert, J. O., London.
Lansdowne, H. J., Isleworth.
Lazarus, J. E., London.
Lee, P. F., Cowley.
Leighton, D., Upminster.
Lenton, A. G., Croydon.
Leonard, W. H., Leamington Spa.
Lewindon, J. P., Hawkwell.
Lipman, E. E., Pinner.
Lowman, J. A., Worcester Park.

McClelland, K. W., Crawley.
McFadyen, D. D., Bristol.
McGhee, G. J., Bahrein.
McKay, A. G., Edinburgh.
Macario, M. A., Northwood.
Macleod, I., Sheffield.
Marron, S., Dublin.
Mayes, G. W., Birmingham.
Medlock, R. W., King's Lynn.
Mesher, S. P., Romsey.
Miller, W. G., Cardiff.
Mills, L., Bury.
Millward, D. S., Newcastle.
Minards, V. J. A., London.
Mitchell, R. A., Orpington.
Mitchell Cox, S., London.
Monaghan, M. W., Bracknell.
Moore, D. P., North Lancing.
Morrison, R., Barnsley.

Nicholson, D., Greenford.

O'Connell, J. A., Dublin.
Ogunba, V. O. A., London.
Ojo, P. B., Leeds.
Oliver, R., Doncaster.
O'Sullivan, D. B., Ballylongford.

Pang, B. L., London.
Parekh, R. J., London.
Parker, D. S., Solihull.
Pemberton, N., Heywood.
Penn, C. L., London.
Penny, F., Darwin.

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Penrose, J. C., Wigston Magna.
Pepper, B., Birmingham.
Phillips, D., Doncaster.
Pollard, D. B., Woodford Green.
Pomphret, E. W., Manchester.

Quinn, F. W., Bill Quay.

Rahim, R. A., Twickenham.
Read, C. C., Birmingham.
Reeves, G., Devizes.
Reid, D., Aberdeen.
Roberts, W. E., Swansea.
Robertson, A. V., London.
Romeo, W. F., London.

Saddington, F., London.
Savage, R., Sheffield.
Sheikh Idris Ibrahim, Khartoum.
Simmonds, S., Bexleyheath.

Slope, A. J. R., Greenford.
Smart, K. L., Abbots Langley.
Smith, H., Hull.
Snell, D. R., Reading.
Somani, C. C., London.
Spencer, P. J., Guildford.
Stanners, R. H. W., High Wycombe.
Stokes, B. D. F., Birmingham.
Sullivan, M. F., Malahide.

Tanner, R. W., Bristol.
Tarlton, M. G., Potters Bar.
Thorpe, G. W., York.
Tooby, C. H., Stockport.
Townsend, P. B., Amersham.
Townsend, R. J., Guildford.
Tranis, I., Ilford.
Trant-McCarthy, B. J. A., London.
Tucknutt, B., Sunderland.
Tummons, P. E., Sheffield.

Tyrrill, P. J., Gillingham.

Waddell, C. B., Glasgow.
Walker, B. L. (Miss), Worcester Park.
Walker, V., Farnborough, Hants.
Walters, K. K., Kingston, Jamaica.
Ward, P. H., Leeds.
Watson, R. H., Belfast.
Webster, A., West Bridgford.
West, G. S., Lancing.
White, M. G., Cleethorpes.
Whitmore, J. J., Sutton-at-Hone.
Wightwick, M., Dartford.
Williams, D. W., Liverpool.
Williams, L., Doncaster.
Wilson, E. H. J., Exhall.
Wiseman, B. J., London.
Woodthorpe, A. W., Loughton.
Wright, R. J., Coventry.

Yardley, D., Guildford.

(249 candidates failed)

Summary of Results

Candidates				Pre- liminary	Inter- mediate	Final		Total
						Section I	Section II	
Passed with Honours	..	..	..	2	3	4	4	13
Passed	..	..	..	37	278	210	185	710
Failed	..	..	..	54	555	408	249	1,266
Total sat	..	..	..	93	836	622	438	1,989

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Results of Examinations held in June 1960

Successful Candidates

FELLOWSHIP EXAMINATION

PASSED FELLOWSHIP
Aiyar, S. A., Bombay.
Bartlett, A. F., Stonehouse, Glos.
*Beck, H. E. H., Maidenhead, Berks.
Hanson, H., Gt. Yarmouth.
Lauder, J., Walton-on-Thames.
Low, E. G. I., Edinburgh.
McKelvey, D. A., Bolton.
Mackenzie, H. G., Wolverhampton.

MacLachlan, F. R., Bahrein.
Maitland, K. R., Salford, Lancs.
Moat, A. M., Crowborough, Sussex.
†Nelson, R. G. H., Upminster, Essex.
Pearce, C. R., London.
Perera, A. J., Denham, Middx.
Rayner, J. B., Crawley.
Rowe, A. F., Neath, Glam.
Sen Gupta, A. K., Calcutta.

Viner, D. J. J., Allestree, Derbyshire.
Walton, K. M., W. Bridgford.
Wasserfall, J. G., Pretoria.
Williamson, J. T. H., Ashted, Surrey.

PASSED PART B ONLY
Davies, J. H., Kampala, Uganda.
Holley, D. C., Bolton.
Taylor, I., Dudley, Worcs.

* The Lewton Coronation Prize. † The Beyer Peacock Prize.

97 candidates sat. Of these, 21 candidates (as listed above) passed, completing the examination; 3 candidates (as listed above) passed Part B only; 73 candidates failed.

FINAL EXAMINATION

PARTS A AND B

First Place (S. Laurence Gill Prize): Richards, W. S. C., Sutton Coldfield.

Andrews, D. R. G., Romford, Essex.
Ashcroft, K., Preston.
Atkin, J. B., Birmingham.
Brown, M. J. W., Glasgow.
Cavell, D. A., London.
Crawford, C. W., Basingstoke.
Daniels, C. J., Bromsgrove.

Davis, A. P. M., Teddington, Middx.
Gittins, D. R., Wolverhampton.
Heal, J. H., Exeter.
Joy, D., Barnoldswick.
Keegan, K., Leamington Spa.
Matthews, D. R., London.
Northcote, E. F., Tilbury.

Oosthuizen, H. F., Johannesburg.
Porter, H. K., London.
Smith, E., Durban.
Sundaram Iyer, S. I., Bombay.
Vyvyan, A. B., Twickenham.
Wade West, J., Ulverston.
Youngman, M. H., Newcastle upon Tyne.

147 candidates sat. Of these, 22 candidates (as listed above) passed Parts A and B; 15 candidates passed Part A only (names included in list); 31 candidates passed Part B only (under that heading); 79 candidates failed to secure any pass.

PART A (COMPLETING FINAL)

Ali, A., Erdington, Birmingham.
Andrews, A. A., Dagenham, Essex.
Armstrong, C. H., Birmingham.
Armstrong, G. R., Darlington.
Arthur, M., London.

Bacchus, W. J., Derby.
Bailey, R. C., Pinner, Middx.
Baldwin, S. T., Birmingham.
Bamberry, J. J., Bo'ness, West Lothian.
Banerjee, D. N., Calcutta.
Barker, P., Stockton-on-Tees.
Barr, P. J. B., Southampton.
Bashir Ullah, M., Karachi.
Baxter, D., Bradford.
Beardsley, A., West Hallam, Derbyshire.
Beastall, C., Nottingham.
Bednall, R. J., London.
Bentham, W., Durban.
Bishop, P. J., Castle Bromwich.
Blyth, W., Sunderland.
Bovill, W. W., London.
Bowie, A. J., London.
Brennan, P. T., Castle Bromwich.
Brick, D. M., Richmond, Surrey.
Brick, M. F., Cape Town.
Brimble, D., Liverpool.
Briscoe, A. R., Aughton, Lancs.
Bruce, J. B., Blackwell, Worcs.
Burns, A. J., Walsall.
Burt, D. E., Bishop's Stortford, Herts.
Butler, T. J., Dublin.
Button, D. M., Letchworth, Herts.

Chamberlain, V. F., London.
Cherry, A. M., Sevenoaks.
Clewes, J. W., London.

Daburn, K. G., Bebington, Cheshire.
Datta, S. N., London.
de Bruin, J. W. A., Pretoria.
Derry, J. W., Hednesford, Staffs.
Dobbs, G., Bristol.
Dobson, G., Billingham-on-Tees.
Donovan, I. E., Birmingham.
Dowd, T. A., Ellesmere Port, Cheshire.
Doyle, E. J., West Molesey, Surrey.
Dryfe, W. J., Erdington, Birmingham.
Duggan, B. J., Daventry.
Dunkley, P., Preston.
Durham, J. S., Romford, Essex.

Edwards, J. N., Liverpool.
Eliston, A. R., London.
Else, J. H., Leeds.
Elston, R. J., Chesham, Bucks.
Evanson, A. W., Wombourne, Staffs.

Faulkner, H. C., London.
Fell, E. H., Calne, Wilts.
Fellows, W. J., Walsall.
Fisher, R. H., Willenhall, Staffs.
Fletcher, G. R., Upton, Cheshire.
Fowlds, D. G., Johannesburg.
Frost, M. J., Kenton, Middx.
Fulton, A. J., Kilmarnock.

Gammage, A. M., Bradford.
Gatherer, K., Liverpool.

Gelinotte, J. M. I., Johannesburg.
Ghosh, A. K., London.
Ghosh, R. N., Kanpur, India.
Ghosh, S., Hyderabad, India.
Giffin, R. M., Belfast.
Gilchrist, I. J., Glasgow.
Gillespie, A. N., Leeds.
Glendenning, H. K., Sunderland.
Goodstone, A., Edgware, Middx.
Gospel, D. A., Nottingham.
Goss, D. R., Kettering.
Gregory, J., Thornton Heath, Surrey.
Gupta, A. S., Calcutta.

Haines, A. L., Billingham-on-Tees.
Hall, L. J., York.
Hardy, N., Hyde, Cheshire.
Hargreaves, P., Wilmslow, Cheshire.
Haw, A. B., Nottingham.
Hawker, K. A. P., Basildon, Essex.
Hazlehurst, B. W., Harrow.
Hehir, J. T., Glasgow.
Hewitt, I. B., Berkeley, Glos.
Hopson, R. M., Wealdstone, Middx.

Isaacs, E., Willaston, Cheshire.
Itty, V. I., Gollmuri, India.

Jagannathan, A. V., Calcutta.
Jarvis, J. M., Johannesburg.
Jenkins, M. B., Billericay, Essex.
Johnson, K. C., London.
Jupp, N. V., Strood, Kent.

Kaye, A., Bolton.
Kenwright, T. E., Runcorn.
Kitch, V. A., Harrow.
Kumar, H. C., Manchester.

Lake, B., Barrow-in-Furness.
Lang, D. F., London.
Lawrence, G. C., Pudsey, Yorks.
Lawrence, K. E. P., Greenford, Middx.
Lee, C. L., London.
Lester, E., Bury, Lancs.
Lister, T. R., Sheffield.
Little, J. MacC., Devizes.
Loader, F. R., Solihull.
Loomes, J., East Kilbride, Lanarkshire.
Lowsley, R., Grimsby.
Lucey, T., Bilbrook, Staffs.

McCulloch, J., Gayton, Cheshire.
Macdonald, L. B., London.
MacKay, E. C., Newcastle upon Tyne.
MacLeod, J. D., Falkirk.
Maddock, P., The Hague, Holland.
Madeley, R. F., Sheffield.
Malhan, R. C., Calcutta.
Malhotra, S. K., London.
Marshall, R. G., Pinner, Middx.
Martin, R. H., Southampton.
Marx, R. M. S., London.
Matthews, E., Higham, Derbyshire.
Metcalfe, J., Manchester.
Micklewright, J., Sutton Coldfield.
Miller, L. S., Wolverhampton.
Monk, B., Manchester.
Moore, G. E., Birmingham.

Morris, A. B., Rickmansworth, Herts.
Morris, B., Burgess Hill, Sussex.
Mowatt, J. S., Brackenfield, Derbyshire.
Murphy, P. W. L., Wembley.

Needham, D. F. L., Romford, Essex.
Nevill, A. J., London.

O'Brien, J. P., Killarney.
Oliver, J. L., Leeds.
O'Neil, D. T., London.
Oxford, D. E., Wallington, Surrey.

Pantulu, C. N., Sindri, India.
Parker, P., Wrexham.
Parker, W., Kilmarnock.
Parkman, F. A. J., Swindon.
Patel, N. K., London.
Pearson, D., Selby, Yorks.
Pedlar, B., Chadwell Heath, Essex.
Pelmear, C. J., Bristol.
Phin, P. A., Glasgow.
Pilling, N., Waterfoot, Lancs.
Pocock, B., Bristol.
Poff, F. H., Dublin.
Prakash Arora, V., Sijua, India.
Pratt, L. C., Doncaster.
Prime, J. N., Derby.
Pritchard, H. M., Coventry.
Probert, D. H., Birmingham.
Pryke, B. C., Ipswich.
Pugh, T. B., Bridgend, Glam.

Qureshi, W. U., London.

Ramamurthy, S., Calcutta.
Rauf, S. A., London.
Reid, D. McM., Clydebank.
Roberts, B. A., Rochester, Kent.
Roberts, J. E., Peterborough.
Robson, R. I., Bristol.
Rogers, P. A., Orpington, Kent.
Rootes, J. W., Southampton.
Russell, A. F. J., Marchwood, Hants.
Russell, R. F., New Addington, Surrey.
Ryan, J., Glasgow.

Sarfas, G. A., Slough.
Scannell, W. J., Cork.
Schosland, M. T., Hitchin, Herts.
Scoon, J. E. N., London.
Sinderson, A. C., Liverpool.
Smith, F. D., Newcastle upon Tyne.
Smith, L., Leeds.
Spence, D. Y., London.
Statham, G., Liverpool.
Stevens, J. W. P., Eastleigh, Hants.
Stevens, P. H., Sheffield, Beds.
Stevens, P. M., London.
Sureka, S. K., Jaipur, India.

Teague, L., Stoke-on-Trent.
Tepper, A. A., Leicester.
Thomas, M., Leicester.
Thomson, K., Walton, Liverpool.
Trow, C., Walsall.
Twomey, H., Cork.

Venkateswaran, C. V., Bombay.

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Wainwright, N. A., Liverpool.
Walter, N. J., London.
Ward, W. H., Willenhall, Staffs.
Warr, J. M., Mangotsfield, Glos.
Watson, A., Glasgow.
Webley, K. G., Sutton Coldfield.
Weightman, R. A., Barnsley.

Whitfield, R. P., Gillitts, South Africa.
Whittaker, M. D., Bracknell, Berks.
Wilkinson, W. D., Ashton-under-Lyne.
Willett, P. F., Bexleyheath, Kent.
Williams, J. G., London.
Williams, W. V. K., Grays, Essex.
Wilson, R. D., Manchester.

Wilson, R., Welwyn.
Wood, D., Barkingside, Essex.
Worthington, M. J., Sutton Coldfield.
Wotherspoon, D., East Kilbride, Lanarks.
Young, D., Cardiff.
Young, L. H., Gayton, Cheshire.

682 candidates sat. Of these 207 candidates (as listed above) passed; 475 candidates failed.

PART B (COMPLETING FINAL)

Andrew, P. J., Durban.
Anyia, A., London.

Barker, R., Bedford.
Beatham, J. W., Ilkley, Yorks.
Bent, G., Leigh, Lancs.
Bielby, L. J., Manchester.
Bristow, N., Harrogate.
Bullock, J., London.
Burt, J., Slough.
Byrne, D. G., Dublin.

Chew, R. W., Lond
Clay, A. G., London, on.
Cole, B. G., Barnsley.
Cole, H. E., Bushey Heath, Herts.
Cook, P. C. H., Sale.
Cooper, D. D., London.

Daley, S. L. G., London.
Davis, B. M., Buckhurst Hill, Essex.
Davis, J. H., Birmingham.
Denyer, L. C., Gillingham, Kent.

Enticott, R., Walton-on-Thames.

Fairley, R. J., Wembley.
Fairweather, R., Derby.
Flynn, K., Harrow.
Foreman, D., Johannesburg.
Francis, P. E., Bromsgrove.

Fyfe, I. R., Sunderland.

Gillard, D. L., London.
Gillespie, J. S., Belfast.
Ginn, L. L., Guildford.
Grest, A. H., Thornton Heath, Surrey.
Griffiths, J. R. L., London.
Guminski, J. A., Montreal.

Hamid, R. A., Karachi.
Hargreaves, R. P., Oldham.
Hawkes, J. R., Birmingham.
Holland, P. R., Rotherham.

Ingram, A. L., Geneva.

Krishnaswami, R., Calcutta.

Lawson, D., Glasgow.
Light, J. R. F., Weston-super-Mare.

McRae, T. W., London.
Mackie, T. A., Edinburgh.
Makin, A. E., Pretoria.
Mascarenhas, V. S. G., Goodmayes, Essex.
Mathieson, C., Dumbarton.
Myatt, A. J., Wednesbury.

Netherclift, P. A., Ilford, Essex.
Nicholas, J. D. H., London.
Nicoll, J. D., Aldridge, Staffs.

Pearson, E. G., Rosebank, South Africa.
Perrin, M. J., Middleton, Manchester.
Platts, J. S., Sale.

Quayle, J., Twickenham.

Rogers, W. H., Bridgend, Glam.
Rostron, P., Rossendale, Lancs.
Rudder, C., Stockport.

Sachs, J. E., London.
Samee, M. A., Lahore.
Sarma, P. V. L., Madras.
Shaw, M. S., Sutton Coldfield.
Shutt, N. H., Burnley.
Siddiqui, K. A., London.
Smith, I. S., Chatham.

Tansley, H. S., Wednesbury.
Thawfeek, M. S. M., Colombo.
Theagarajah, M. V., London.
Theron, J. A., Pretoria.
Thompson, F. W., Newport, Mon.
Thorn, D. B., Ashtead, Surrey.
Thorpe, H. A., Beeston, Notts.
Turner, A. D., Birmingham.

Waterfall, D. J., Gillingham, Kent.
Wolfe, R. A., Southend-on-Sea.
Wright, D. H., London.
Wright, D. K., Warrington.

138 candidates sat. Of these 76 candidates (as listed above) passed; 62 candidates failed.

Summary of Results

GRADE	PASSED	PASSED	PASSED	PASSED	PASSED	FAILED	NUMBER OF CANDI- DATES
	Completing Examination	Intermediate Part I only	Part A only	Part B only	TOTAL		
FELLOWSHIP	21	—	—	3	24	73	97
FINAL							
Parts A and B	22	—	15	31	68	79	147
Part A (Completing Final)	207	—	—	—	207	475	682
Part B (Completing Final)	76	—	—	—	76	62	138
Part A (Only)	—	—	71	—	71	110	181
Part B (Only)	—	—	—	314	314	540	854
TOTAL	305	—	86	345	736	1,266	2,002
INTERMEDIATE							
Parts I and II	106	98	—	—	204	318	522
Part I	—	561	—	—	561	1,151	1,712
Part II	443	—	—	—	443	1,038	1,481
TOTAL	549	659	—	—	1,208	2,507	3,715
PRELIMINARY	35	—	—	—	35	165	200
GRAND TOTALS	910	659	86	348	2,003	4,011	6,014



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RESEARCH into management control has been going on at The Glacier Metal Company over the last twenty years, and interim results have been published in two books by DR ELLIOTT JAKES.¹ Now MR WILFRED BROWN, chairman and managing director of Glacier, has presented an up-to-date report of the experiment.² The result is provoking and could mark the point at which the study of management in this country ceases to be an empirical exercise only one step removed from learning the job by doing it and becomes a fit subject for university teaching.

WILFRED BROWN, as a young man in full charge of the Glacier company, was convinced that he and his colleagues would benefit immensely from a clearer understanding of the bases of management behaviour and action. Dictatorial and autocratic methods are not popular in this country and the spirit of parliamentary democracy is deeply engrained. Yet many of us think of management in the private sector of business as one of the last outposts of autocratic power - and we may be inclined to attribute such success as attends British industry to this quality of management. WILFRED BROWN did not start from this assumption. He was concerned with the validity of managerial authority - and its limitations - and recognized that very little was known about the concepts underlying the organization of a business. The Glacier experiment set out to disclose these concepts.

The experiment started with a three-year research project, undertaken by the Tavistock Institute of Human Relations, led by DR ELLIOTT JAKES, and it has been continued by the company with DR JAKES as consultant. The result is a tentative general theory of the organization of a business. Within the company this has led to detailed written statements of policy and organization from which great benefits have flowed; by committing policy and organization to paper much previous inefficiency has been eliminated and, surprisingly, it has been found that written policy is more flexible than the unwritten kind commonly encountered. On this part of the experiment MR BROWN's conclusion is so startlingly simple that it has the ring of truth about it: it amounts only to the statement that most of the troubles within a business - 'personality problems', tangled lines of communication, lack of co-operation, staff v. line disputes, poor labour relations, etc. - will vanish if doubt is removed as to what the business

¹ *The Changing Culture of a Factory* (1951) and *Measurement of Responsibility* (1956), both published by Tavistock Publications, London.

² *Exploration in Management*, by Wilfred Brown, with foreword by Eric L. Trist, Chairman, Research and Training Committee, Tavistock Institute of Human Relations. William Heinemann Ltd, price 30s.

is trying to do and how it is organized to do it.

There has evolved in Glacier an overall picture of the company as a socio-technical organization, with power groups composed of shareholders, consumers and employees co-operating, willy-nilly, to establish a system of accepted law (the legislative system) within the framework of which management defines policy and attempts to carry it out through an executive system. At the same time the 'autocracy of the executive' is kept in check by works councils of highly-developed form (the representative system) and an appeals system. A main policy document defines basic policy and the workings of each independent system.

It is tempting to see all this as organization gone mad: but we have MR BROWN's assurance that the work done on company organization has greatly reduced time spent by management on paperwork and non-productive general discussion. This is the benefit to Glacier.

The present report is not final, but comes at a time when research has laid bare the principles of management in this particular case and has drawn attention to a range of unsolved problems. In addition to the principles of organization laid down in the descriptions of the executive, legislative, representative and appeals systems, principles have been established for the relationship of specialists with executives, effective communication, definition of the duties of supervisors at the bottom of the executive system, the conduct of meetings of various kinds, etc. It is humbly suggested that these principles – or some of them – may prove to be of general application. If so, then the way is clear to establish the study of management at university level; for, as MR BROWN says: "The universities realize the need to equip graduates with as much knowledge as possible about management. They have been under pressure from various quarters in industry, and from the British Institute of Management, to set up Chairs of Administration. There is, however, *no body of knowledge* available of the appropriate level of abstraction on which a degree course could be founded. There are as yet no "laws of management".' Glacier has gone much of the way towards establishing these laws and it is to be hoped that other bodies will now co-operate.

Here is an opportunity for the accountancy profession to show its concern for the establishment of appropriate training for management.

While the British Institute of Management, in particular, has pressed on with the establishment of training facilities for future managers, the accountancy profession has both failed to produce a proper syllabus for the 'bridging' subject of management accounting, which inevitably links accountants and managers, and has tended to use such university facilities as it possesses for economic, rather than management accounting, research. *Exploration in Management* invites the profession to use some of its research funds and facilities differently.

The least satisfactory part of the book is that which deals with accounting work in the company. A consideration of 'the lack of clarity about the role of the accountant' led to the conclusion that 'the functions of our Financial Division are concerned with auditing the entire operations of the company on behalf of the board, keeping the executive system within the law, and providing a wide range of services to the executive system, such as paying wages, keeping personnel records, analysing and processing data, recording and reporting credit given'. For accountants this is a sad conclusion: they seem to have been examined and found wanting, and, as a result, most of their positive functions have been taken away and allotted to a specialist 'Programming Division'. Why is this? Is it because of faults in personality, training, background or outlook of accountants? Is the profession prepared to see this part of the Glacier experiment spread through industry?

On the last two pages of the main text, MR BROWN quotes as one of the unsolved problems the establishment of more realistic control procedures over expenditure and use of resources. Accountants could have no clearer invitation to take part in future research. Not only is Glacier unhappy about its interim conclusions on the role of the accountant but it is here that outside help would be most welcome.

Exploration in Management is an interim report, in which tribute is paid to help from many outside bodies. No similar work has been done in this country on the specific problem of the place of the accountant in a carefully organized business, and it seems that the Glacier Company would welcome help in this direction.

Let us hope that the next report will pay similar tribute to the profession for its help in the accounting field.

FINANCE ACT, 1960

Investment and Dealing Companies — II

LAST week we dealt with Section 25 of the Finance Act, 1960, with the exception of subsection (4). This subsection imposes liability on a non-dealing company in rather different circumstances. If a dealing company is entitled to a deduction in respect of a period ending after April 5th, 1960, for the depreciation in value of any right against an associated non-dealing company, which depreciation is not otherwise taxable on the non-dealing company, then Section 25 (4) provides that the associated non-dealing company be deemed to receive the same amount on the last day of the period, and to be chargeable under Case VI in respect of it. The same applies where the dealing company makes a payment to the associated non-dealing company and is allowed to deduct the payment in arriving at its own profits. It follows that if the dealing company purchases stock from a non-dealing associated company, the deduction allowed to the purchaser will be balanced by a charge on the seller for the proceeds of the sale, whether or not the seller has in fact made a profit.

If the non-dealing company carries on a trade or trades (it will be recalled the 'dealing' in this context is confined to dealing in securities, land and buildings) it can elect not to pay tax under Case VI under Section 25 (4), but instead to treat the sum in question as a receipt of its trade, or of any one of several trades which it carries on. If an overseas trade corporation makes such an election, the receipt will be treated as trading income. This is proviso (a).

Proviso (b) to Section 25 (4) abrogates liability under the subsection where all the following conditions are satisfied:

- (i) the associated non-dealing company carries on, or was formed to carry on, a trade; and
- (ii) either
 - (a) the right against such company was to the repayment of money lent for meeting expenditure; or
 - (b) the payment to such company was for meeting expenditure; and

- (iii) the expenditure is such that the company making it cannot claim any deduction for it;

- (iv) the expenditure has proved to be abortive. If the expenditure is only partly abortive, then relief under proviso (b) is allowed *pro tanto*. Proviso (b) was added at a late stage with a view in particular to giving relief to mining companies which are financed by associated mining finance companies but which prove to be a failure, so that the finance is lost. There is an underlying assumption that the amount to be taxed under Section 25 (4) will either be capital expenditure of the non-dealing company, resulting in productive assets, or will be deductible. If this assumption is incorrect, and the non-dealing company was meant to trade, then the charge is withdrawn.

Section 25 (4) taxes the non-dealing company on the whole proceeds of sales to the dealing company. Section 26 imposes tax where any person, including an individual, sells shares in an investment company to a dealing company, the seller having control (as defined in Section 333 (1) of the Income Tax Act, 1952) of both companies. It applies only where (a) the consideration is not already taxable in the seller's hands; and (b) one or more of the following circumstances obtain:

- (i) the seller acquired the shares after April 5th, 1960; or
- (ii) the rights attached to the shares were altered after April 5th, 1960; or
- (iii) at the time of the sale the seller had a similar holding of shares which he acquired after April 5th, 1960.

The seller can elect to pay tax (under Case VI) on the excess of the proceeds over the consideration (if any) which he paid for the shares or for the alteration of the rights. If he does not so elect, the profit is to be computed in the following manner, which is a simplified form of the computation laid down in Section 21. A notional computation is made of the profit which the investment company itself would have made, at the time of the sale, if it had sold to the dealing company, for the consideration paid for the

shares, such proportion of all its assets as is properly apportionable to the shares actually sold, having regard to the number and nature of such shares and the rights attaching to them, as compared with the total issued capital.

Example

A. is an individual who does not himself trade in shares. He controls X. Ltd, a dealing company. In June 1960 A. acquires 60 per cent of the one-class capital of Y. Ltd for £6,000. He sells it to X. Ltd in December 1960 for £9,000, the then market price. At the time of the second sale Y. Ltd's assets consist of quoted securities worth £15,000 which it acquired in 1950 for £2,000. The notional profit *prima facie* assessable under Section 26 (2) (3) is:

$$6/10\text{ths of } (£15,000 - £2,000) = £7,800$$

The maximum is, of course, £9,000, the sale proceeds. However, A. will naturally elect to pay on his own actual profit of £3,000.

Students of the history of company law will recognize in Section 26, as in Section 25, another blow at the once sacred principle established by *Salomon v. Salomon & Co Ltd* ([1897] A.C. 22), that a one-man company is not the mere agent of its master. On the other hand, the spectacle of one individual manipulating his wholly-owned companies, some trading in investments, some not, and at the same time not himself being treated as a share dealer is perhaps *Salomon v. Salomon* taken to its logical absurdity.

In the case of investment companies having complicated capital structures the computation would be much more involved. Moreover, Section 26 (3) says nothing about the liabilities of the investment company. If nothing is allowed for these, the section might work very harshly. The omission is all the more remarkable when one bears in mind the elaborate provisions in Section 21 for arriving at notional profit.

In case A. might be tempted to interpose some willing third party between himself and his dealing company, so that on the face of it he does not in fact sell to his dealing company but to the third party who resells to the dealing company, Section 26 (5) provides that in such a case A. shall be deemed to sell to his dealing company if arrangements for acquisition by the dealing company are made not later than the sale to the third party.

As indicated above, the section applies only where the seller of the shares has control of both the investment company and the dealing company to which he sells. However, if two or more persons together control the two companies and all of them sell shares in the investment company to the dealing company, then Section 26 applies to each sale. Apparently there is no time limit, apart of course from the ordinary time limit for making assessments. Thus if of three joint owners one sells in 1960 and the other two in 1965, then the Revenue can make an additional assessment in respect of the first sale five years after the event (Section 26 (4)).

Section 26 is aimed primarily at individuals but it could apply to a company. Where that company is potentially liable to surtax directions any income assessed upon it under Section 26 will be deemed to be investment income for the purpose of directions and apportionments.

The exclusion from Section 26 of sales of shares which the seller acquired before April 6th, 1960, takes most of the teeth out of the section. On the other hand, a slight alteration in the rights conferred by the shares after that date may produce a heavy tax liability.

As with so many anti-avoidance sections, these provisions are much more likely to injure the innocent than the guilty. The determined tax avoider will study the provisions carefully and will so arrange his transactions that they are not caught. The genuine and innocent seller of shares will in many cases make a sale (or procure a change in the rights attached to his shares) without considering the provisions at all and thus will probably be caught by them. Unlike Sections 21-24 or Section 28, Sections 25 and 26 apply automatically without any intervention by the Tax Inspector; the subject is under a duty, when he makes his return, to consider carefully whether he has incurred liability under Section 25 or Section 26. If he has, and fails to return it, he may be subject to heavy penalties. If he has so arranged his affairs as to avoid liability under those two sections, as well as under Sections 21-24, there still lurks in the background Section 28 which the Revenue may apply to his discomfiture, and the terms of which are so obscure that certainty can be achieved only by applying for a clearance under Section 28 (10), with all the risk that that entails.

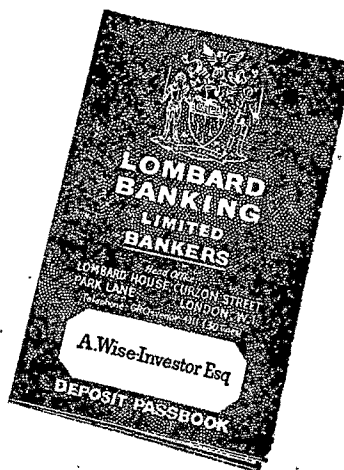
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Business Slide Rules

CONTRIBUTED

IT is a surprising fact that so few accountants make use of slide rules. This simple and inexpensive calculating aid is most useful for problems involving multiplication, division, percentages, proportion and ratios, as well as some more difficult problems. Of course, it is no substitute for accounting machines; it does not give answers correct to six figures. But there can be very few engineers who do not make regular use of a slide rule, yet engineering calculations are not usually thought to be less exacting than accounting calculations.

Examining bodies for the accountancy profession do not at present require their students to learn how to use a slide rule, yet not many accountants would be unwilling to spend an hour or so of time and a pound or so of money teaching themselves the necessary skill if they thought it worth their while. This article aims to supply enough background for non-users to decide whether it would be worth their while.

Basic Principle

The basic principle is perfectly simple, as anyone can see with the help of two desk rulers. Set the two rulers side by side, and move ruler A so that the 1 on its scale lines up with the 3 on ruler B. Now it will be noticed that the pair of ruler scales forms a plus-two table; opposite 2 on A we find 4 on B, opposite 3 on A, 5 on B, and so on. If ruler A is slid along until its 1 lines up with 4 on ruler B, the scales will form a plus-three table. A pair of rulers used like this is a primitive slide rule; and since equal distances along its scales represent equal additions, it functions as an adding machine.

To convert it to a multiplying machine, we have to re-number the scales so that equal distances represent equal multiplications. If we pencil the figures '1, 2, 4, 8, 16, 32' against the inch marks instead of '1, 2, 3, 4, 5, 6' and repeat our first experiment, it will be found that 1 on A is opposite the pencilled 4 on B, 2 on A opposite 8 on B, and so on; instead of a plus-two table we now have a times-four table. On ordinary 10-inch slide rules a distance of about 3 inches corresponds to multiplying by two; 20, 40 and 80 occur at about 3 inches, 6 inches and 9 inches,

respectively from 10, and 24, 48 and 96 at similar distances from 12.

From a glance at a selection of slide rules in a stationer's shop, it will be noticed that they are graduated with a variety of special scales. Many of these special scales are of no help for commercial work, and we will return to this later. First, it might be helpful to see just how the slide rule can be applied to some simple problems, all of which can be solved in three or four seconds by a moderately skilled user. (Readers who can borrow a slide rule will be at an advantage in following the ensuing paragraphs.)

The exact method of working is set forth in detail. The usual abbreviations are used; the A scale is the one on the body or stock of the rule, situated immediately above the sliding part of the rule or slider. The D scale is the one on the stock just below the slider. The B and C scales are the two on the upper and lower edges of the slider itself. The cursor is the transparent window or metal frame with a vertical hairline which can be slid back and forth across the stock.

Some Examples

Percentages and proportions are very common slide-rule applications. For instance, what is the cost per foot of 7-inch diameter steel sold at £59 18s 6d per ton, given that a 10 foot 6 inch bar weighs $13\frac{1}{2}$ cwt.? All we have to do is to set 105 on C against 59.925 on D, and we can read the answer, 77s a foot, in D against 135 in C.

Or let us compare two quotations for envelopes, one at 208s per thousand including tax, and the other at 177s per thousand plus tax at $22\frac{1}{2}$ per cent. If we set 1 on C against 122.5 on D, we see that opposite 177 on C there is nearly 217 on D. The second quote is therefore dearer, amounting to nearly 217s when tax is allowed for. We can see just how much dearer if we set the cursor over 177 on C and move the slider so that 208 on C comes under the cursor. Opposite 1 on C we now see 104 on D; the second quote is 4 per cent higher than the first.

An estimator might be called upon to give a selling price for something made from 10s 6d worth of material in 26 minutes of labour time. Labour is charged at 5s an hour, to which 60 per cent is added for factory overheads. General overheads and profit are allowed for by adding 130 per cent to the factory cost. This problem takes longer to state than it does

to solve. We set 1 of C to 230 on D; opposite 105 on C, we note 24.2 on D, the final price for the materials component. Now set cursor on 26 on C, move slider so that 16 on R (the reciprocal scale on the slider) comes under cursor, opposite 12 on R read final price for the labour component, 8.0. Hence selling price is 24.2 plus 8.0, i.e. 32.2, or 32s 2d.

There are often several ways of setting about a problem; some are better for speed, some for accuracy. Practised users get quick results by short cuts which become obvious after a while; for instance, in the last example the labour charge was taken as a penny a minute instead of 5s an hour. To illustrate approaches giving greater accuracy, consider the cost of $13\frac{1}{2}$ yards of material at 13s 6d a yard.

First we set 1 of C to $13\frac{1}{2}$ on D, giving us a $13\frac{1}{2}$ times table. Now we could proceed by converting 13s 6d to £0.694 on the scale provided, reading 936 on D opposite 694 on C, and again by means of the conversion scale converting this £9.36 to £9 7s 2½d. This is approximately right, but it is not exact, because on a 10-inch rule it is difficult to read between 935 and 940. Alternatively, opposite 13 on C we could note 1755 on D; so the cost at 13s a yard would be 175s 6d. Next, opposite $10\frac{1}{2}$ on C we note 141.75 on D; so the cost at $10\frac{1}{2}$ d a yard would be 141¾d, or 11s 9¾d. It follows that the cost at 13s $10\frac{1}{2}$ d a yard is exactly £9 7s 3¾d.

The Question of Accuracy

This leads to the question, How accurate is a standard slide rule? The question seems less important once one has got used to using slide rules, and few of the slide-rule books make more than a passing reference to it. In fact all three popular sizes – 5-inch, 10-inch, 20-inch – are accurate to *about* three figures. The 20-inch rule has four-figure graduations at the left-hand end of the scale, and three-figure graduations at the right-hand end where the figures crowd together. It gives answers to three significant figures, but it is rather cumbersome to handle and costs more than twice as much as a similar 10-inch rule.

The most popular and practical size is the 10-inch and beginners are advised to become proficient with this before trying any other. The sole merit of the 5-inch rule is that it slips easily into the pocket. Its rather poor accuracy can be improved by a magnifying cursor, which certainly makes it easier to read the scales, and in the 'Unique' series a 5-inch precision rule is listed 'giving 10-inch accuracy in pocket form' by means of sectioned scales. Sectioned scales are also used in the 'dualistic' models listed by most

makers to give 20-inch accuracy in a 10-inch rule. Instead of a single scale, these models have scales in two sections, one above the other, and thus double the effective scale length.

To get four-figure accuracy, a scale ten times as long is necessary. The sectioned scale approach is used in, for instance, the Hemmi No. 200 Precision Duplex, retailing at 312s. This has six C and D scales and six folded scales, each scale in a set covering a sixth of the full scale length. As it is a 16-inch rule a complete set of scales gives an effective scale length of 96 inches, providing four-figure accuracy throughout the range and five figures in part of the range.

Another approach to higher accuracy is to have the scales graduated spirally round a barrel; an excellent example of this is the Otis-King calculator, which looks like an inspection tool of some kind but is quite easy to use. Of metal construction with plastic coated scales, this light, strong, pocket-size, instrument measures 6 inches long closed and 10 inches long when fully extended. It retails at 57s 6d, and with an effective scale length of 66 inches gives four-figure accuracy on most work.

Of course, these are special purpose instruments and lack the versatility of the ordinary 10-inch commercial slide rule.

Slide Rules for Business Purposes

Returning now to the standard 10-inch slide rules, let us consider what is required in a business slide rule and what makes are available. Local stationers naturally stock the types for which the demand is greatest, but this is no reason for accountants to let themselves be fobbed off with engineers' slide rules. It is well worth while obtaining one of the rules specially designed for commercial work, even if this means a slight delay while the order goes through to the manufacturer.

Few accountants will ever have occasion to use the special scales, such as sinh, tanh or $\sqrt{(1-x^2)}$, provided on some slide rules. On the other hand, it is essential to have some handy method of converting pounds, shillings and pence, and no provision is made for this except on the restricted range of slide rules specially designed for business purposes.

The four basic slide-rule scales consist of two pairs; one scale in each pair is on the stock and the other on the slider. The lower pair, known as C and D, are graduated from 1 to 10 and are the main calculating pair. For the upper pair, known

as A and B, a type of graduation still survives which was superseded over a hundred years ago. This can easily be recognized because the graduations go from 1 to 10 in half the length and from 10 to 100 in the other half. Readers are advised to steer clear of this type of scale, which reduces the accuracy to that of a 5-inch rule without offering any advantage not afforded by the folded scale.

The folded scale has graduations of the same size as on the C and D pair, but they are differently arranged. Instead of 1 (or 10) appearing at the ends of the scale, it is in the middle. The number at the left-hand end of the folded scale is usually either π or $\sqrt{10}$ or 3. Folded scales supplement the normal C and D pair, and considerably increase speed of working with no reduction in accuracy; the effect is that the result is never off scale, and consequently the rule never needs re-setting in the middle of a calculation.

In addition to these four scales, a reciprocal scale is often provided down the middle of the slider. Graduations are the same as on the C scale immediately below except that they are reversed, with 9 near the left instead of the right-hand end. This is a useful scale to have and speeds many calculations. These five scales comprise the basic modern slide rule. There are many excellent rules of this type available, all perfectly suitable for multiplication, division, proportions, percentages, ratios, etc.

When we come to consider those slide rules designed particularly with the accountant in mind, reference may first be made to the Faber-Castell 'Business', which has a money conversion table on the back and two scales on the front giving decimal equivalents. An excellent method adopted in A. G. Thornton's PIC 'Engineer-Commerce' is an extra scale displaced relative to the D scale so as to give shillings to pounds conversions by projection, together with red lines on the cursor which give shillings to pence conversions. In the 'Unique' there is also a rule with extra scales offset relative to the D scale so as to multiply or divide by 12 or 20 by simple projection.

Compound interest, sinking fund, annuity and many depreciation calculations require log-log scales, which are usually positioned either on the reverse of the slider or along the outer edges of the stock.

Simple interest calculations can be made easier by a little care in the design of the rule; the Faber-Castell 'Business' is particularly good in this respect.

Finally, square and cube scales have some

applications for commercial work. They do not make possible any calculations which cannot be done on the other scales mentioned, but they can increase speed of working.

Market Survey

Three makers offer slide rules specifically designed for accountants. Those in the 'Unique' range are by far the cheapest and although they have their drawbacks, the scale arrangements are well chosen and at the price must be considered good value. The 10-inch 'Commercial', for instance, has ten useful scales, including the £ s d conversion scales mentioned above. Another useful instrument in this range is the 'Monetary'; the only slide rule in the world actually graduated in £ s d. Both these slide rules have special discount markings to save converting; for instance, less 20 per cent to times 0.8, and at 13s each both are strikingly cheap. Another interesting slide rule in the 'Unique' range is the 5-inch 'Dualistic De Luxe'. This is a pocket-size rule with sectioned scales to give the accuracy of a 10-inch rule. It also has a long-range log-log scale for compound interest calculations, and inch and centimeter scales. The 'Dualistic De Luxe' retails at 14s.

Faber-Castell list two commercial slide rules which for some time have been the best available in this country. The 'Business', already mentioned and retailing at 56s, comes with a very clear and thorough instruction book. The scales provided include C and D, folded scales at the A and B positions, log-log scales with special arrangements for simple and compound interest work, reciprocal, logarithmic and inch scales, and shillings and pence as decimals of a pound. The 'Super-Business' is similar with the addition of square and cube scales.

However, since March of this year there has been a new contender for top place in this restricted field. This was when A. G. Thornton's re-designed 'Estimator-Finance' and 'Engineer-Commerce' slide rules became available.

The 'Estimator-Finance', Model 4880, retailing at 60s, has a similar set of scales to the 'Business'. There are no scales for decimalizing currency, but the cursor has a simple arrangement for multiplying or dividing by 12. The log-log scales cover a different range, and their effective range is extended by a patented differential scale. Full instructions in the use of this are provided, together with a short but gruelling course in the mathematics of finance and many worked examples in sinking funds, loan charges, depreciation and assurance.

Taxation Implications of Business Growth

by J. D. WELLS, F.C.A.

IN approaching my subject, I am minded first to give some consideration to the very nature of business growth. There is an old belief that there is no such thing as a static business; it must either expand or go under. This view was restated in modern terms by Mr B. A. Maynard, M.A., F.C.A., A.C.W.A., in a paper given at the national conference of the British Institute of Management held at Harrogate last November:

'Theoretically, of course, expansion may have nothing to offer to a very small minority of companies that are operating in limited markets or are providing specialized or personal services and have already reached their optimum size. But for the majority it is not enough merely to avoid the embarrassment of contraction; it can be dangerous to fail to grow.'

Mr Maynard went on to comment on the greater vulnerability to take-over bids noticeable among companies with low growth records, and at a later stage referred to the vital importance to an expanding business of capital expenditure budgets.

It is at this point that taxation has to be considered because of its direct effect on the net profits that may be available for financing capital expenditure or providing the increased working capital required as a result of expansion. So far as I am aware, Section 246 is unique in the Income Tax Act in making specific reference to the development of a business. Elsewhere in the Act there is provision for the special reserves of Lloyd's underwriting members, but these are surely intended rather as a means of creating reserves for future lean years than as a source of capital for the finance of future expansion. The Act also recognizes individual saving by means of life insurance and superannuation reliefs.

At the risk of being charged with mis-quotation, I feel that reference should be made at this stage to the report of the Royal Commission on the Taxation of Profits and Income. The question which the Commission addressed to themselves was:

'How far, if at all, should the system of taxing

An address given at the Taxation Conference of the London and District Society of Chartered Accountants held at Eastbourne earlier this year.

the income of individuals permit the distribution of the tax burden to be affected by the desire to encourage saving.'

On the subject of business savings, paragraph 77 of the majority report runs as follows:

'We turn now to business savings. We are speaking therefore of that part of the income of a business, incorporated or unincorporated, that is not drawn out of the business into the hands of the proprietors. Generally speaking the public interest is not engaged to support or deprecate this sort of saving. It is not a moral question, in what proportions the business or its proprietors are to have the immediate use of its profits at any particular time: and although at any one period there may be social and economic considerations of substance that argue one way or the other, it seems to us that they are essentially cyclical and are unlikely to form the basis of any permanent feature of the tax system. In fact it is possible to go further and to say that even if economic considerations alone are attended to, *it is not the retention of profits in itself that engages the public interest, but the*



Mr J. D. Wells

fruitful employment of resources, however derived [my italics], for the purpose of maintaining, improving and expanding the business. It follows that although there is indeed a connection between the feeding of reserves and a flow of fruitful investment, the point of economic importance is not the negative act of refraining from distribution but the positive act of the creation of new assets.'

In the subsequent paragraph, the report comments unfavourably on the two-tier profits tax system, now fortunately fast becoming a memory, and suggests that if the tax scheme is to include variable instruments of economic policy, it seems better that discrimination in favour of company savings should be based on investment rather than on saving. Paragraph 79 states that the encouragement of investment, as distinct from saving, is intended to be achieved by the initial and investment allowances and that neither of these allowances relates to saving or is in any direct sense connected with saving.

It has to be recognized therefore that our tax code,

in granting capital allowances, does not examine the source of capital employed in the acquisition of fixed assets. Nor does it give any relief on savings employed in financing a greater volume of current assets.

Initial Stages

I now propose to comment on some of the problems that arise in the growth of a business between the sole trader stage and incorporation, including some of the difficulties peculiar to private companies which have to be considered when a decision on incorporation is to be made.

Birth is the inevitable prelude to growth and I need not remind you of the important question of fact as to when business commenced, since pre-trading expenditure is not an admissible deduction. This point does not always arise with small beginnings but where substantial capital is available it has been known for much planning and development expenditure to be incurred before trading in its Inland Revenue accepted sense has started.

The next feature is often the first accounts and the accounting date itself. As regards the latter, I am certain that most accountants, whether in commerce or, in practice, have had to take pencil and paper at one time or another to make the necessary calculations and I do not propose to deal with them here. It is perhaps surprising that other considerations apparently outweigh tax factors, for comparatively few accounts take advantage of the extended credit offered by an accounting date early in the fiscal year, such as April 30th. The interval of up to twenty-one months between the end of basis year for assessment and the due date for payment of tax can be quite valuable where profits are showing a healthy tendency.

There is, of course, a corresponding increase in the interval between the incurrence of capital expenditure and the grant of capital allowances, with the limited exception of investment allowance deduction for profits tax in the case of companies. I have seen this delay described as a disadvantage, but this seems a distorted view so long as the assessable profits exceed the capital allowances due. If they do not there can be no tax payable.

Any consideration of first accounting date is usually bound up with the rules of assessment for new businesses and the crystal gazing that sometimes take place to see whether an election is likely for the second and third years assessments to be based on actual profits. Of course, the election does not have to be made irrevocable until after the close of the third year and it is also worth remembering that the election would accelerate the incidence of capital allowances as between the years concerned. These peculiarities of our tax system would disappear, so far as companies are concerned, if the recommendation of the Royal Commission with regard to a current

year basis of assessment for Cases I, II, IV and V were adopted; it was accepted that assessments on individuals and partnerships had to be left on a preceding year basis of assessment.

In any business which has to grant generous credit to its customers, it is often somewhat painful for the proprietor to find the money for payment of taxes when both his original outlay and the element of profit are still represented by debtors, stock or work in progress. The cash basis of assessment offers some protection to professional men but is not, of course, available to the trader. His only safeguard lies in ensuring that none of these current assets is overvalued.

So far as bad or doubtful debtors are concerned, only specific provision may be deducted; most of us must be familiar with the lengthy campaign which has been fought by the Inland Revenue for the inclusion of overheads in valuations of work in progress and manufactured or processed stocks. Inspectors are generally reluctant to accept any addition to prime costs which only covers overheads so far as the factory door, but more certain guidance for the future may be offered by the decision in the *Duple Motor Bodies* case. The question at issue in this case, which is to be taken to the House of Lords, is whether the value of work in progress should be calculated in computing the profits of the company for income tax purposes, by the direct cost method (the cost of materials and labour only) as the company contends or by the oncost method which adds a proportion of indirect expenditure to the direct cost as the Crown contends.

The method of valuation adopted will not affect the amount of any ultimate profit, but will govern the incidence of those profits as between years of assessment.

Attrition by Surtax

With the smaller business and private company, there are obviously fewer possibilities available to mitigate the incidence of taxation, since the amount of tax at stake simply does not justify any elaborate or comparatively expensive rearrangement of affairs. On the other hand, the sole trader and partnership still find that the circumstances of changes in ownership or in the members of the partnership, which so often accompany growth, are such as to enable them to take advantage of the rules of assessment applicable to new and discontinued businesses should the upward trend of profits be temporarily reversed. This occasionally exciting exercise is largely denied to companies by Section 17 of the Finance Act, 1954, although it is possible to be outside the scope of that section by the introduction of a new shareholder with not less than 25 per cent of the issued ordinary share capital.

The growing unincorporated business will, provided its profits grow reasonably too, soon come

into contact with the burden of surtax, and particularly where the proprietor or his wife have other sources of income, the total tax payable is sufficiently material to justify rearrangement of the business – usually by way of incorporation.

Because of the graduated scale on which surtax is charged, the effective overall rate of tax increases with growth of profit and the proprietor finds that the proportion of profit available for retention diminishes with increased income and at a time when maintenance of the existing rate of growth probably requires proportionately greater additional capital.

In recent months there have been many suggestions that the starting-point of surtax should be raised from £2,000, a sum now worth very much less than in 1920–21 when the exemption limit was reduced to its present level from £2,500. It is also suggested that earned income relief should apply for surtax as well as income tax. This last improvement is estimated to cost £27 million or 16 per cent of the total net receipt for surtax for 1958–59. However welcome these reductions in the charge to tax might be, they would only serve to delay the point at which incorporation became essential and would not alter the basic problem.

Incorporation is not, of course, available as a solution to the financial growing pains of professional firms, but there is a limited alternative in the shape of formation of a service company to provide certain facilities for the partnerships concerned, such as ownership of leasehold premises or equipment which are in turn rented or hired to the partnership. Such companies sometimes give rise to involved procedure on the retirement of a partner and must usually be subject to the surtax legislation in view of the definition of 'person' in Section 256 which includes as one all partners. However understanding the Special Commissioners might be towards any attempts to provide amortization of a lease from income which has not been eroded by surtax or to even out major fluctuations in profits – and I am not sure that they are – it seems wrong to me that the professions of this country should have to depend on a favourable interpretation of the statutes by the Special Commissioners as the only means of financing their requirements in the way of working capital. Unless the profits are really substantial there are many cases in which a service company is not practical.

Before passing to the incorporation stage, I should mention that the Royal Commission considered the possibility of a scheme whereby income tax and surtax relief might be given to unincorporated business on profits retained for the service and expansion of the business. The majority concluded that no practical scheme could be devised which would achieve the desired result and, at the same time, retain a desirable measure of equity as between one class of taxpayer and another.

Incorporation

(a) Income taxes

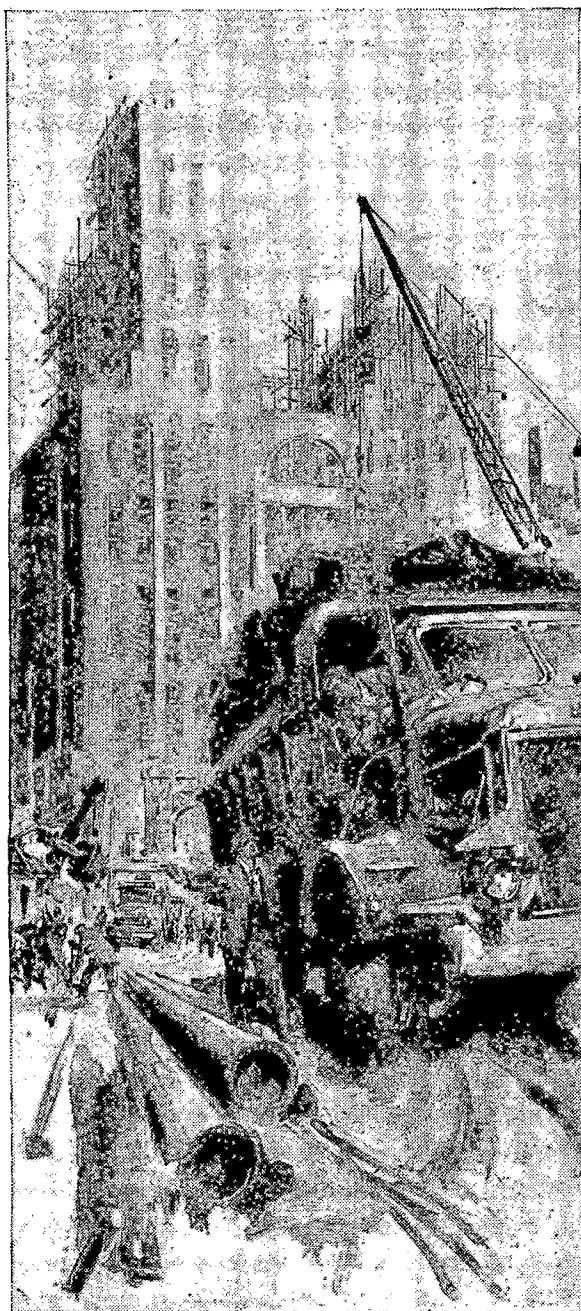
There is a certain magic about a new company and an atmosphere of impending prosperity which makes many people anxious to have a company of their own; the idea is certainly not new and was known to W. S. Gilbert, perhaps as a result of his early days as a barrister. In *The Gondoliers*, that celebrated, cultivated, underrated nobleman, the Duke of Plaza Toro, was convinced that his family's faded fortunes could be restored by the magic of incorporation.

This is possibly the explanation for a disappointed look known to appear on clients' faces when advised that the time is not yet ripe for forming a company. The two most common reasons for cautioning against too early incorporation, even with the most expansive of businesses, are (a) the possibility that trading losses might be incurred for which no immediate relief can be given to the company by set-off against the owner's other income and (b) the simple fact that profits must reach a certain level before any tax savings can be achieved. In fact, the extended limits of earned income relief introduced by the Finance Act, 1957, have raised to no mean extent the point at which incorporation was previously considered practicable. (The sort of point I have in mind is that it is obviously no worse for the individual to pay income tax at a fraction over 6s in the £, i.e. standard rate less earned income relief together with surtax at 2s or 2s 6d, than for the company to pay income tax at the standard rate together with profits tax at an abated rate of, say, just over 9d in the £ (on £3,000 chargeable profits).)

For a married person with no other income, and after allowing for director's remuneration at the optimum level, there is sometimes little to be saved by incorporation if the annual profits are less than £5,000. Much, if not all, depends on the circumstances of the particular case and it is not possible to generalize.

Fortunately there is little to say about profits tax now that the former two-tier structure has been demolished. Lack of grief at the passing of the distribution charge might be thought to be inconsistent with my earlier remarks about lack of Inland Revenue recognition for savings from profits, but non-distribution relief was entirely indiscriminate; it made no difference whether the retained profits were left on current account or employed in a praiseworthy venture. The system had many other drawbacks, not the least for those who had to contend with the calculations.

The *Carpet Agencies* case should be remembered at this juncture, although not strictly relevant to business growth; that company went into liquidation after April 1st, 1958, and the liquidator made returns to members in excess of the nominal value of the paid-up share capital. The company's principal trade had ceased before April 1st, 1958. It was held



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in the High Court that these distributions by the liquidator must be related back to the last chargeable accounting period, namely, the period in which the principal trade had ceased and in consequence non-distribution relief fell to be withdrawn. There are one or two restrictive features which still have to be watched with a director-controlled company such as the limits of chargeable remuneration and the disallowance of interest paid to proprietors.

Having decided that the time for incorporation is ripe, attention should be paid to the date of change since Section 17 of the Finance Act, 1954, does not apply to the formation of a company to acquire a business formerly carried on by a sole trader or partnership, and the rules of assessment applicable to new and discontinued businesses will apply. Section 17 might be applied if the company were admitted as a partner for a brief period before the retirement of the original proprietor.

At this stage it should be recorded that I have been asked to assume, most conveniently, that our newly incorporated and ever-growing business will not be troubled by Section 245 and surtax directions.

(b) Estate duty

Any reference to estate duty and companies will call to mind Sections 46 and 55 of the Finance Act, 1940. In fact, in a memorandum drawn up recently by a solicitor to summarize the effect of proposals for incorporation of an existing business, the point was made that subjection to these sections was a distinct disadvantage for a company by contrast with the estate duty position which would have regulated the charge to duty on the partnership assets. A little reflection would have reminded the author that a sole trader or partner would be liable to estate duty on his business assets or share of them on the basis of the value of the individual assets, i.e. on an assets basis, with the possible exception that in a partnership matters are sometimes so arranged that goodwill escapes the full impact of the charge for duty. I also believe that, strictly speaking, agricultural property owned by a partnership is personalty so far as a deceased partner's estate is concerned and does not therefore qualify for the 45 per cent relief. (But see *The Accountant* dated July 23rd, 1960, at page 117.)

Admittedly, Section 46 does not have any counterpart in the ordinary legislation for duty payable by individuals, but it was originally designed to meet situations which could not be achieved without the interpolation of a company between an individual and his former assets. The general theme of such devices was that the individual retained the benefit of the income but without being liable to estate duty on the underlying assets at his death.

A more valuable distinction can be made between valuation of shares on an assets basis under Section 55

and the open market value basis under Section 7 of the Finance Act, 1894, although it has been, to some extent, blunted by the reduction in the rates of estate duty applicable to industrial hereditaments, plant and machinery and agricultural land owned and used by companies. The decision in the *Holt* case is authority for the view that in valuing a minority interest under Section 7, dividend yield, and not earnings, is of paramount importance.

The basic problem for consideration by the owner of a company whose business is expanding, which is at its worst where the owner has little wealth beyond his shares in the company, may, perhaps, be put as follows. The greater the expansion, presumably the more the value of the business and the higher the rate of duty applicable to the total of the owner's estate. The greater the amount of duty payable, the greater the problem of finding money to pay that duty if liquidation is to be avoided. The prudent owner will see that during his lifetime sufficient of his holding, or perhaps control, is disposed of in order to produce liquid funds which will be available for payment of duty. These dispositions may also reduce his total estate and the rate of duty payable.

Remuneration of Capital and Management

The unlamented two-tier system of profits tax made the preference share unpopular and placed the debenture at a small premium by comparison. A preference dividend attracted tax at the higher rate, the whole burden of which fell on the ordinary shareholders, whereas debenture interest was an admissible deduction in arriving at chargeable profits. With the smaller company, debentures or even unsecured loans are still popular as a means of mitigating the charge for capital duty on formation.

When considering the capital structure of a new business, it is sometimes suggested by the proprietors that part of the consideration payable by the company to them should not be satisfied by the issue of share capital but should be allowed to remain owing by the company either in the form of a balance due on current account or as a secured loan. This scheme of things is favoured by those who wish to withdraw the initial profits of their business in the guise of capital by applying those profits in reduction of the company's indebtedness to them. In considering the impact of surtax on the profits thus withdrawn, account has to be taken of Section 246 (2) which specifically provides that any profit applied in reduction of indebtedness incurred in the acquisition of a company's original business shall be deemed to be available for distribution. In order to avoid a surtax direction, it would probably be necessary to pay a dividend of an amount at least equal to the profits applied in reduction of initial indebtedness.

I have seen it suggested by counsel that the minimum requirements of Section 246 can be satisfied by declaration of a dividend of gross amount equal to the capital withdrawn in the manner I have just described, but logic – admittedly an indifferent guide in tax matters – suggests that a net dividend of that amount should be paid unless some purely unintended advantage is to accrue to the taxpayer.

The fact remains that payment of reasonable dividends accompanied by moderate withdrawals of capital by the former proprietors is distinctly feasible; alternatively, the company may repay loans from third parties such as bankers or debenture-holders where the original advance, or the proceeds of it, found their way into the proprietor's pocket. I need not add that observation of the specific requirements of Section 246 will not of itself act as a talisman against the other dangers of the surtax legislation.

In the early stages of a company, earned income relief, and to a lesser extent, the need to take advantage for profits tax purposes of the maximum permitted levels of directors' remuneration in a director-controlled company, make it desirable that the greater part, if not all, of the profit is withdrawn as remuneration. If no profit remains after charging directors' remuneration, there can be no question of an attack by the Special Commissioners. The surtax position is less certain where a balance of profit does remain, but it can be argued that in deciding what dividend – if any – would be reasonable in such circumstances, regard must be had to the amount received by the shareholders in the shape of remuneration. Directors' fees and salaries are, of course, just as much subject to surtax as dividends and 'reasonable' must mean reasonable in all the circumstances. The quest for earned income relief at the expense of reduced dividends may give rise to a conflict of interest when ownership of the company is partially or wholly outside the hands of those who are directly concerned in running the business.

On the subject of reasonable remuneration there appears to be severe conflict in the taxing statutes. Surtax starts at £2,000, subject now to one or two deductions for personal allowances. On the other hand, earned income relief suggests that any salary up to £4,000 deserves recognition by a relief of approximately 1s 9d in the £, while even the next £6,000 or so qualifies for relief at half that rate. For profits tax we have a third, and apparently independent, standard of reasonable remuneration for use by director-controlled companies.

Conclusion

I will not embarrass my hosts by using this platform for political purposes; I would, however, like to record my mild surprise that after some ten years of Conservative Government, there are so many tax problems which beset the growing private

company. There are answers to these problems; answers, however, which very often result in the ownership of the company being transferred into other and larger hands. Today, when commerce both here and abroad is highly competitive, there are powerful economic incentives to concentration of our trading enterprises. I would ask whether it is Government policy or mere accident that taxation should exert additional pressure in this direction.

I have already mentioned the impact of estate duty on the owner of a growing company who has to provide for his ultimate liability to duty by a sale of part or all of his interest in the company. Further pressure may be exerted by the attraction of a 'top-hat' pension scheme which cannot be enjoyed so long as control is retained. A retirement annuity is better than nothing but not usually so generous in its cover as a 'top-hat'.

In this paper I have endeavoured to touch lightly on some of the tax problems that beset a growing business in its earlier stages. In case I should be thought to have overlooked the questions of rising price-levels and directors' expenses, there are reasons. The first cannot be solved by tax alone and the second is not peculiar to expanding business. Many of the problems would be blunted if rates of taxation were lower. The principal difficulties are caused by surtax and estate duty, with profits tax as a belated runner-up. The yields from these three taxes are not high in proportion to the total collected as can be illustrated by reference to the report of the Commissioners of Inland Revenue for 1958-59. The amounts produced for 1958-59 were as follows:

	£ million
Income tax	2,318.2
Profits tax	271.7
Estate duty	186.7
Surtax	166.0
Stamp duties	66.3

Other prominent sources of national revenue in the same period were:

	£ million
Purchase tax	497.5
Fuel tax (hydrocarbon oil)	346.1
Road fund licenses	106.4

To remove or mitigate the difficulties I have referred to would not cripple the Exchequer; it would nevertheless require political courage. In this connection I think it is a pity that there are not more accountants in both Houses to pass on the benefit of their unique experience, not merely as to the taxation problems of an expanding business, but generally as to the state of commerce and the administration and framing of our laws. The accountant would serve these functions with his customary impartiality, but the number of accountant Members of Parliament is unlikely to increase so long as the present pressure of professional practice continues.

Weekly Notes

Building Societies' New Tax Rate

THE composite rate of tax for building societies for 1960-61 as agreed between the Inland Revenue and the Building Societies Association is 5s 4d in the £. This compares with 5s 1½d for 1959-60.

While the societies' operating margin is now slightly higher, at £2 10s, as a result of the recent mortgage rate increase from 5½ to 6 per cent with no increase in the investment interest rate of 3½ per cent, the overall tax rate has also substantially risen in view of the 2 per cent increase in profits tax to 12 per cent as well as the higher composite rate. The actual overall rate will now be £1 12s 6d per cent as against £1 8s 1d in the previous year. The societies' effective operating margin will now be 17s 6d compared with 16s 11d last year.

National Insurance in 1959

ON average, nearly 12 million benefits and allowances are being paid by the Ministry of Pensions and National Insurance each week, and at the end of 1959 the cost was at the rate of about £1,200 million a year, it is stated in the Ministry's annual report¹ published last week.

Due to the influenza epidemic early in 1959, the number of claims for sickness benefit rose by nearly 900,000 over the 1958 figure of 8¾ million. At the end of the year the Ministry was paying about 750,000 war pensions, family allowances to nearly 3½ million families, nearly 5½ million retirement pensions, over 540,000 widows' benefits and guardians' allowances and about 160,000 industrial disablement pensions.

The overall cost of social service benefits being paid by the Ministry at £1,200 million comprised £100 million for war pensions and nearly £130 million for family allowances from Exchequer funds, and about £970 million in benefits from the national insurance and industrial injuries funds, including £650 million for retirement pensions and £135 for sickness benefit.

At the end of the year about 415,000 men and women had reached minimum pension age during the previous five years but had not retired. An analysis for the year ended June 30th, 1959, showed that about 47 per cent of the pensions awarded to men and 28 per cent of those awarded to insured women had been increased by the raising of the earnings limit from 50s to 60s for those remaining at work and continuing to contribute. In March 1960 the level was further raised to 70s.

The number of prosecutions for trafficking in used National Insurance stamps and other misuse of stamps, the report states, fell from 262 in 1958 to 159 in 1959. Criminal proceedings for failure to

pay contributions and allied offences totalled 8,048, compared with 6,491 in 1958 but the general standard of compliance remained high. Legal proceedings were taken against 1,491 people for offences connected with obtaining benefit improperly and there were convictions in 1,450 cases.

The report includes an account of planning and organization in preparation for the commencement of the graduated pension scheme in April 1961, and the procedure under which the registrar of non-participating employments decides applications for contracting out employees who are members of occupational pension schemes.

Non-voting Shares

THE defeat of the proposals put forward by the board of Thorn Electrical Industries to make a one-for-one scrip issue, including more of the non-voting 'A' shares, underlines the opposition of the larger insurance companies to equity capital which carries no vote. The chairman of the company has expressed the opinion that the proposals which involved the issue of Ordinary shares to Ordinary shareholders and of 'A' Ordinary shares to 'A' Ordinary holders was equitable to both classes. The opposition, on the other hand, instanced the fact that a special meeting of 'A' Ordinary holders called at which the latter could vote would have been unnecessary if their rights were not affected.

The view has been expressed that the main object of the opponents of the proposal was to demonstrate their disapproval of non-voting Ordinary shares rather than of the Thorn proposals as such. Non-voting shares have, of course, been used to ensure that ultimate control of companies with very large capital rests with a small minority of shareholders and in the present instance Mr Thorn has suggested that without the concentration of voting power in the Ordinary shares of which he is a large holder, the company would probably have been the subject of a take-over bid. Whether such considerations should justify the principle of non-voting shares is probably best left to the decision of the Jenkins Company Law Committee.

Restrictive Trading Agreements

ADDRESSING the Antitrust Section of the American Bar Association in Washington on Tuesday, the Registrar of Restrictive Trading Agreements outlined the background to the passing of the Restrictive Trade Practices Act in 1956 and referred to progress to date under the Act. He stated that at August 1st there were 2,300 agreements in the register, and 1,030 agreements had come or were coming to an end either because the Court had found them contrary to the public interest, or because the parties abandoned them before they were referred to the Court. Sixty-three cases before the Court had been concluded; fifty-two had been undefended so that the restrictions were held contrary to the public interest; eleven had been defended and eight of them

¹ Cmd. 1133. H.M.S.O. Price 8s.

had been found contrary to the public interest. One had been wholly upheld, as had most of a second. One minor restriction alone of a third had been upheld. Of the eleven contested cases, eight had involved price fixing, and two had involved discriminatory trading. But most had failed to pass the

Court's scrutiny because, when the facts had been carefully investigated, the Court had not been satisfied of the probability that the public received any substantial benefit from their operation or would lose any by their disappearance. In some cases, the Court also found that they caused substantial detriment.

This is My Life . . .

by An Industrious Accountant

CHAPTER 40

THERE is a French proverb which says *Le plus ça change, le plus c'est la même chose*, and in spite of the superficial changes wrought by the passing centuries on its practices, it appears that life in one's chosen profession has remained surprisingly constant. There are the same dreams and ambitions, the same problems, and fortunately, the same triumphs. Some 300 years ago, Samuel Pepys experienced them all. His diary records stories which are regularly paralleled today.

I like particularly an entry of July 5th, 1660:

'Met with Mr Cooling, my Lord Chamberlain's Secretary, who took me to dinner among the gentlemen waiters and after dinner, into the wine-cellar. He told me how he had a project for all us secretaries to join together and get money by bringing all business into our hands.'

Years ago, I helped to found a local branch of our institute, and the preliminary procedure was just the same. We had ambitious schemes for enhanced prestige arising from formal unity, and increased remuneration as a further by-product. We held our quiet advance discussions in restaurants and taverns - though never actually down in the cellar - and ultimately our branch was initiated and grew and flourished thereafter. It was otherwise with Samuel's scheme. There is no further reference to it in his later meetings with the far-sighted Mr Cooling, so presumably he found it was not a necessary factor in planning his rise to success.

Indeed, there were other and easier means of improving one's prospects in the Stuart days, when a lax code of morals was accepted procedure in business as well as in Court circles. Little tokens of appreciation of services rendered were common as between donor and beneficiary, and they naturally waxed greater in value as the recipient grew in status. And Pepys grew rapidly. If a hopeful client of the Admiralty presented him with a cake in 1662, in 1663 he received

'a fair state-dish of silver, and cup, with my arms ready cut upon them, worth, I believe, about £18, which is a very noble present, and the best I ever had yet'.

By 1664, the ante was rising. A prudent victualler,

who was later to be Sheriff of London, presented him with silver flagons worth £100; as Pepys remarks innocently:

'I a great while urged my unwillingness to take anything, not knowing how I could serve Mr G. . . . it is to oblige him in the business of the Tangier victualling, wherein I doubt I shall not.'

The final sentence is cryptic, so it suffices to comment that Samuel and Mr G. became very good friends thereafter.

It is a matter of grave regret among my colleagues that such 'tokens' are not offered more frequently to us. Not that we have the slightest intention of accepting them, of course, but the opportunity of a virtuous refusal is a superb stimulus to morale.

My only experience in this line is the Christmas present of five hundred cigarettes that a friendly customer regularly sends me. While this vaguely troubled my Puritanically-trained conscience in my younger days, my scruples have sensibly diminished as I have grown older, especially when I observe the substantial parcels simultaneously received in our various selling and purchasing departments.

One is aware of the exhortations from those in high office these days that members of the profession should seek to improve themselves by studying business subjects and so acquire additional knowledge to justify their professional status. In this respect, at least, Pepys set a startling headline for today's generation. Witness these entries picked at random from the summer days of 1662, when he was striving assiduously to become master of his job:

'Up by four o'clock, and hard at my multiplication table, which I am now almost master of.'

'Up by four o'clock in the morning, and upon business at my office.'

'Up early, and after reading a little in Cicero, to my office.'

Those of our members who have toiled over actuarial science or algebra, with wet towels round their brows in the small hours, may smile in wry recognition of a kindred spirit hard at his tables. They must have represented no mean feat for a Restoration clerk, when we consider that the Treasury records were still being notched on tally-sticks two centuries or so later. And what of Cicero? I can still recall some scraps of *Horace* after many years (*Eheu, fugaces, fugaces, Postume!*), but few of my colleagues read Latin for pleasure en route to work.

The Admiralty may well be proud of their great secretary's zeal for improvement.

Finance and Commerce

R. E. Jones

THE accounts of R. E. Jones Ltd, the hotel company, which provide this week's reprint, deal with matters that have recently been the subject of criminal proceedings. The focus is on the reduction in current assets from £427,264 to £111,084, on the new item 'Payments in suspense - £456,366' and on the qualification of the auditors' report, drawing attention to the payments in suspense which 'represents three cheques drawn on the company's banking account in favour of three separate payees and amounting respectively to £392,000, £61,000 and £3,366'. The auditors have been unable to obtain information at the date of their certificate - July 11th, 1960 - as to the authority under which the payments were made or as to their purpose and present value.

The story is told by the present board, who took over the administration after these events, in their report with the accounts.

Since the last annual meeting, they point out, the control of the company has changed hands. Offers to purchase the company's shares started in May 1959 and culminated in a bid being made on July 9th, 1959, on behalf of Tildet Investments Ltd (a subsidiary of Lintang Investments Ltd) to acquire the R. E. Jones issued capital at 38s 6d a share.

The offer was accepted by holders of a majority of the shares and declared unconditional on July 23rd, 1959.

Rival Bids

Actually, what happened in the first place was a bid of 27s 6d for the Jones 10s units by Contango Banking & Trading Co. This was rejected by the Jones board and Contango raised its bid to an undisclosed figure, later withdrawing from the scene. Then Mr Maxwell Joseph, of Lintang Investments Ltd, made a bid of 35s, raised shortly afterwards to 38s 6d, which the Jones board, controlling over 25 per cent of the capital, accepted and recommended shareholders to accept. H. Jasper & Co then obtained control of Lintang and the R. E. Jones story really begins.

'As a consequence in the change of control', the directors' report now under consideration continues, 'all board appointments were determined and compensation for loss of office and for termination of service agreements was voted in the sum of £54,000 at an extraordinary meeting on August 4th, 1959.

R. E. JONES LIMITED AND SUBSIDIARY COMPANIES. Consolidated Profit and Loss Account for the Year ended 31st October, 1959.

1958				1958			
£		£	£	£		£	£
2,119	Audit Fees (Parent Co. £600)	.. ..	2,289	224,716	Profit subject to the items in this Account	.. ..	224,597
3,095	Directors' Remuneration:—			20,362	Interest on Investments and Deposits (Gross)	.. ..	15,715
13,270	Fees	3,130		2,602	Surplus on realisation of Investments	.. ..	238
	Managerial	10,471			Increase in surrender value of Redemption Fund Policies	.. ..	—
974	Leases Amortisation		13,601				
4,429	Addition to Redemption Fund	.. ..	974				
790	Depreciation—Furniture and Equipment	.. ..	5,443				
102,552	Profit carried down—Parent Co.	70,621	616				
120,451	Subsidiaries	147,006					
			217,627				
£247,680			£240,550	£247,680			£240,550
	Parent company	Subsidiaries	Group Total		Parent Company	Subsidiaries	Group Total
	£	£	£		£	£	£
Taxation on the Profits of the Year:				223,003	Balance of Profit for the year		
95,300	Income Tax	28,685	81,770	96,092	Balance of Profit brought forward	70,621	217,627
24,550	Profits Tax	5,000	19,375			147,006	
55,000	Transfer to Provision for Special Repairs	—	20,000			45,972	102,446
—	Compensation paid to former Directors	32,627	54,000				
44,447	Dividend of 10% (less tax)	—	—				
—	Special Interim Dividend of 2½% less tax, paid on 16th February, 1959	11,112	11,112				
219,297		77,424	186,257				
	Deduct:						
2,648	Taxation adjustment for previous years	4,000	14,171				
216,649		73,424	172,086				
102,446	Balance of Profit carried forward	43,169	147,987				
£319,095		£116,593	£320,073	£319,095		£116,593	£320,073

R. E. JONES LIMITED.—Balance Sheet as on 31st October, 1959.

1958	1958	£	£	£	£	£	£
Current Liabilities:							
28,804	Creditors and Accrued Expenses	..	..	26,511	Balance at Bankers and Cash in Hand	..	..
26,706	Taxation	..	..	36,561	Deposits with Bankers	..	..
44,447	Proposed Dividend (Less Tax)	..	..	..	Quoted Investments, at cost, less amounts written off (Market value £74,948)	..	..
99,957				63,072	Debtors and Payments in advance	..	..
					Subsidiary Companies, Current Balances	..	..
29,591	Provision for Repairs and Maintenance:	..	..	29,591	Stock-in-Trade, at or under cost	..	..
21,250	Reserve for Income Tax 1960/61:	..	..	17,500			111,084
151,351	Capital Reserve:	..	..	151,351	Payments in Suspense:	..	..
							456,366
Revenue Reserves and Surplus:							
110,006	General and Miscellaneous Reserves	..	..	110,006	Subsidiary Companies:		
45,972	Profit and Loss Account, Balance	..	..	43,169	SHARES—At Independent Valuation In 1933, plus additions at cost, less amount written off	..	..
				153,175	DEBENTURES—At Cost	..	..
					LOANS TO SUBSIDIARIES	..	..
							695,007
							165,500
772,994	Authorised: Ordinary Stock and Shares of 10/- each £1,700,000						
	Issued and Fully Paid—1,545,988 Stock Units of 10/- each	..	..	772,994			529,507
					Fixed Assets:		
					At Independent Valuation, plus Additions at cost, less Sales		
					Freeholds	..	..
					Leaseholds, Furniture and Equipment	..	..
							68,025
							65,981
							43,280
							22,701
							90,726
£1,231,121				£1,187,683			£1,187,683

DONALD V. HOUSE, Chairman.
HUGH T. NICHOLSON, Director.

REPORT OF THE AUDITORS TO THE MEMBERS OF R. E. JONES LIMITED.

Except as stated below, we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books. We have examined the above Balance Sheet which is in agreement with the books of account.

The item shown on the Balance Sheet as "Payments in Suspense—£456,366" represents cheques drawn on the Company's Banking Account in favour of three separate payees and amounting respectively to £392,000, £61,000 and £3,366. We have been unable at this date to obtain information as to the authority under which the payments were made or as to their purpose and present value.

Subject to this reservation, in our opinion and to the best of our information and according to the explanations given us, such Balance Sheet provides the information required by the Companies Act, 1948, in the manner so required and gives a true and fair view of the state of the Company's affairs as on the 31st October, 1959.

We have also examined the accompanying Consolidated Balance Sheet and Consolidated Profit and Loss Account of the Company and its Subsidiaries dealt with thereby with the audited accounts of those Companies. In our opinion such Consolidated Balance Sheet and Consolidated Profit and Loss Account have been properly prepared in accordance with the provisions of the Companies Act, 1948, so as to give a true and fair view respectively of the state of affairs and of the profit of R. E. Jones Limited and its Subsidiaries dealt with thereby so far as concerns members of R. E. Jones Limited.

72-74, VICTORIA STREET, LONDON, S.W.1.
11th July, 1960.
D. W. COATES, WEST, GRIMWOOD & CO.,
Chartered Accountants, Auditors.

Handicapped

At the annual meeting of the company recently, Mr D. V. House, F.C.A., the chairman, stated that action to recover had been taken. Investigation, he said, had been delayed because until a week or so previously, some of the amounts were the subject of criminal action.

Until the amounts in suspense could be recovered, said Mr House, it might be some time before the directors would be able to declare a dividend.

Moreover, owing to the loss of the company's liquid resources, even if only temporarily, the company was further handicapped. There was a lot of work still to be done to bring the hotels up to modern standards of accommodation and because of what had happened to the accumulated resources, the cost of the alterations would have to be spread over a longer period than the directors would have wished.

Among the company's properties is *The Piccadilly Hotel*, London, and *The Angel Hotel*, Cardiff.

Mechanization

A START has now been made on the long-term plan for modernization of the London Stock Exchange. Mechanization of the Settlement Department has begun with eighteen electronic card sorters and printers which will in time tackle the settlement of 160 different stocks. Each machine can calculate considerations of bargains at the rate of one hundred a minute and in time the Stock Exchange should have, at a press of the button, statistics of the volume of business either way in the market.

The whole conception of this first-stage mechanization is undoubtedly a revolution in stock exchange thinking and it makes even more essential the parallel modernization of the actual physical process of share transfers.

The Stock Exchange's first step towards mechanization also throws up the question of whether the House itself will be able to make the fullest use of the new statistical information available to it.

CITY NOTES

THE stock-market is now taking stock of itself, after two weeks of excitable business which took equity prices within touching distance of the early year peaks. Continental demand on a market short of shares was one particularly forceful influence.

There is, however, a broadly-held opinion that the rise in prices is, to say the least, premature. Many brokers, while still prepared to execute the exuberant orders of their clients, are at pains to point out that there is no evidence, as yet, that internal credit restrictions have had any helpful effect on the trade figures, that lower Bank rate - if it comes - has little to do with those restrictions and that it is, anyway, far too early to talk in terms of a possible easing of credit pressure.

In some quarters this view is taken so far as the suggestion of a possible call for further special deposits from the banks, who in announcing a £45 million reduction in the level of bank lending at mid-August, stated that the reduction was nothing more or less than the type of fluctuation to be expected from month to month.

More chickens are counted before they are hatched in the stock-market than anywhere else. The markets traditionally discount prospects six months ahead but the present pitch of prices would seem now to be doing that and a fair bit besides.

There is now such an obsession with 'growth' in investment thinking, however, that the equity market as a whole continues to attract support irrespective of microscopic yields and uncertain short-term prospects. Yield matters little. A company offering ordinary shares on rights terms, even on a basis which gives little away, can confidently expect success. A high yielding preference offer by the same company would be heavily left with underwriters.

RATES AND PRICES

Closing prices, Wednesday, August 31st, 1960

Tax Reserve Certificates: interest rate (29.6.60) $3\frac{1}{2}\%$

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4 $\frac{1}{2}\%$
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5 $\frac{1}{2}\%$	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

June 24	£5 13s 7.40d%	July 29	£5 10s 10.96d%
July 1	£5 13s 6.14d%	Aug. 5	£5 11s 7.17d%
July 8	£5 13s 3.06d%	Aug. 12	£5 11s 5.85d%
July 15	£5 10s 2.49d%	Aug. 19	£5 11s 8.78d%
July 22	£5 9s 9.27d%	Aug. 26	£5 11s 9.05d%

Money Rates

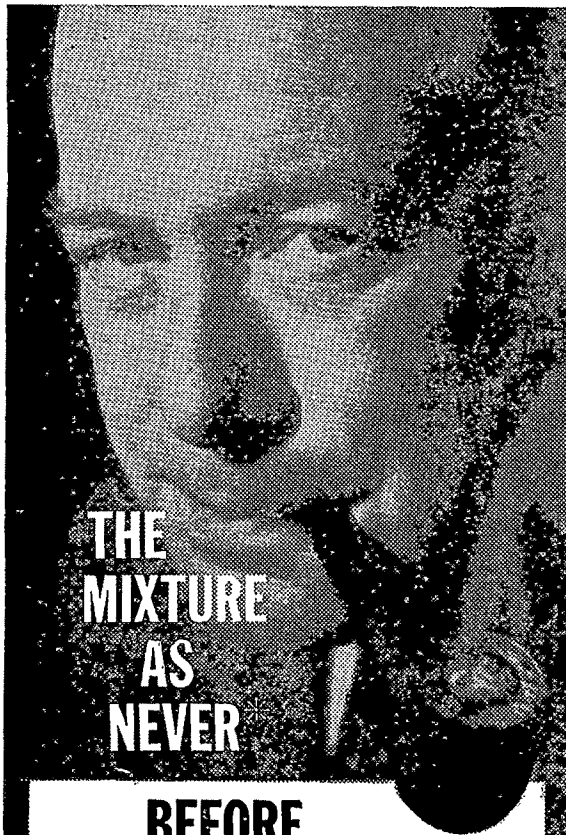
Day to day	4 $\frac{1}{2}$ -5 $\frac{1}{2}\%$	Bank Bills	
7 days	5-5 $\frac{1}{2}\%$	2 months	5 $\frac{1}{2}$ -5 $\frac{3}{4}\%$
Fine Trade Bills		3 months	5 $\frac{1}{2}$ -5 $\frac{3}{4}\%$
3 months	6 $\frac{1}{2}$ -7%	4 months	5 $\frac{1}{2}$ -5 $\frac{3}{4}\%$
4 months	6 $\frac{1}{2}$ -7%	6 months	5 $\frac{1}{2}$ -5 $\frac{3}{4}\%$
6 months	6 $\frac{1}{2}$ -7 $\frac{1}{2}\%$		

Foreign Exchanges

New York	2.81- $\frac{1}{8}$	Frankfurt	11.72 $\frac{1}{8}$ - $\frac{3}{8}$
Montreal	2.72 $\frac{1}{2}$ - $\frac{3}{4}$	Milan	17.44 $\frac{1}{2}$ - $\frac{3}{4}$
Amsterdam	10.60 $\frac{1}{2}$ - $\frac{3}{4}$	Oslo	20.03 $\frac{1}{2}$ - $\frac{3}{4}$
Brussels	140.59 $\frac{1}{2}$ - $\frac{3}{4}$	Paris	13.77 $\frac{1}{2}$ - $\frac{3}{4}$
Copenhagen	19.36 $\frac{1}{2}$ - $\frac{3}{4}$	Zürich	12.11 $\frac{1}{2}$ - $\frac{3}{4}$

Gilt-edged

Consols 2 $\frac{1}{2}\%$	46	Funding 4% 60-90	87 $\frac{1}{2}$
Consols 4%	66 $\frac{1}{2}$	Savings 2 $\frac{1}{2}\%$ 64-67	82 $\frac{1}{2}$
War Loan 3 $\frac{1}{2}\%$	60 $\frac{1}{2}$	Savings 3% 55-65	88 $\frac{1}{2}$
Conversion 3 $\frac{1}{2}\%$	58 $\frac{1}{2}$ xd	Savings 3% 60-70	78 $\frac{1}{2}$
Conversion 3 $\frac{1}{2}\%$ 1969	83 $\frac{1}{2}$	Savings 3% 65-75	71 $\frac{1}{2}$
Exchequer 5 $\frac{1}{2}\%$ 1966	97 $\frac{1}{2}$	Treasury 2 $\frac{1}{2}\%$	43 $\frac{1}{2}$ xd
Funding 3% 66-68	81 $\frac{1}{2}$	Treasury 3 $\frac{1}{2}\%$ 77-80	72 $\frac{1}{2}$
Funding 3% 59-69	81 $\frac{1}{2}$	Treasury 3 $\frac{1}{2}\%$ 79-81	70 $\frac{1}{2}$
Funding 3 $\frac{1}{2}\%$ 99-04	64 $\frac{1}{2}$	Victory 4%	91 $\frac{1}{2}$



THE
MIXTURE
AS
NEVER

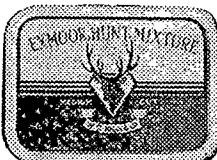
BEFORE

Many a man who smokes a pipe has never smoked Exmoor Hunt in it. And that, Exmoor being what it is, is a great shame.

We think you'd enjoy Exmoor Hunt as you've never enjoyed tobacco before. We *could* be prejudiced, of course, but there are lots of people besides ourselves who feel the same about it.

Exmoor Hunt is a mixture. A remarkably good mixture. Popular. And deservedly so.

* *Not that there's anything new about Exmoor Hunt. It is simply an extra-mellow mixture of fine quality tobaccos blended with more than ordinary skill. Try it. We think Exmoor would soon stake its claim to your very best pipe.*



Broad or Medium Cut
1 oz - 4/9½ 2 ozs - 9/7

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THE EXTRA MELLOW MIXTURE

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Price per Share on 30th August, 1960, 5s 0d Estimated gross annual yield £4 10s 9d (calculated in accordance with Board of Trade requirements.)

Managers: UNICORN SECURITIES LIMITED

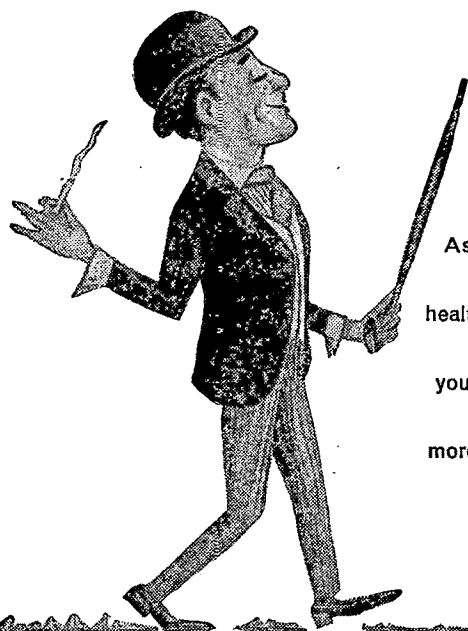
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Trustees: WESTMINSTER BANK LIMITED

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The Institute of Internal Auditors

(Incorporated in November 1941 under the laws of the State of New York.)

THE INSTITUTE is the outgrowth of the belief on the part of internal auditors that an organization was needed to develop the true professional status of internal auditing, and that a medium should be provided for interchange of ideas and information among those engaged in its practice.

THE INSTITUTE has more than sixty Chapters distributed in four Continents with a total membership of over 4,400.

UNITED KINGDOM CHAPTERS

<i>Existing</i>	<i>Constituted</i>	<i>Existing</i>	<i>Constituted</i>
London	1948	Birmingham ..	1959
Manchester	1958	Yorkshire	1959
Newcastle upon Tyne	1959	East Midlands ..	1959
Glasgow	1959		

The inaugural meeting of the projected Irish Chapter will take place at the Shelbourne Hotel, Dublin, at 5.30 p.m., on September 21st, 1960.

CLASSES OF MEMBERSHIP

- (a) *Members.* – Open to persons who are responsible in a managerial or supervisory capacity for the Internal Auditing activities within their organization.
- (b) *Associate Members.* – Open to practising accountants and others whose work is closely related to Internal Auditing.
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Inquiries should be addressed to the European Regional Director, Mr J. O. DAVIES,
The Chief Internal Auditor of the National Coal Board,
Hobart House, Grosvenor Place, London, SW1.

Investment Club Accounting

SPECIMEN STATEMENTS

In order to help treasurers of affiliated clubs with accounting statements, the Association of Investment Clubs Ltd of Liverpool, has formulated a specimen set of accounts for presentation to club members at monthly meetings. The intention is to keep investment club

accounting as simple as possible, but at the same time to present a fair and clear view of the financial position.

The specimen statements are set out below, with notes to each section. The method outlined is, of course, only one of various alternatives.

BALANCE SHEET

	£	s	d	£	s	d
60 Club Units				60	0	0
Total Club Brokerage and Premiums collected ..	5	3	5			
Less Share and Incidental expenses	3	2	4	2	1	1
Creditors, if any						
				<u>£62</u>	<u>1</u>	<u>1</u>

Investments at Cost

	£	s	d	£	s	d
40 Ordinary Shares of Steel Company of Wales ..	15	9	0			
25 Ordinary Shares of I.C.I.	20	3	0			
30 Ordinary Shares of B.M.C.	10	6	0			
	<u>£45</u>	<u>18</u>	<u>0</u>			
Cash at Bank	13	1	3			
Cash in Hand	3	1	10			
		<u>16</u>	<u>3</u>			
				<u>£62</u>	<u>1</u>	<u>1</u>

Explanatory Notes

CLUB UNITS: These are the total number of units subscribed for by the members.

CLUB BROKERAGE AND PREMIUMS: This heading covers the 4d per subscription or the 10s 6d per annum collected in accordance with the method suggested in the formation letter. Also under this heading are shown the amounts by which the current unit value exceeds the £1 unit. Thus if the current unit value is £1 9s 6d then the £1 unit purchased would be recorded under 'Club Units' and the 9s 6d premium shown under this heading.

SHARE AND INCIDENTAL EXPENSES: Under this heading are shown the expenses incurred in purchasing the shares, e.g. stamp duty, commissions and registration fees. Incidental expenses covers such items as secretary's stationery, postages, A.I.C.'s affiliation fee.

CREDITORS: Should the club owe any money then it must be recorded under this heading.

INVESTMENTS AT COST: On the contract note received from A.I.C. Ltd after each purchase will be shown the total purchase price of the shares. This is shown as the 'consideration' and that is the total to be shown under this heading.

CASH AT BANK, CASH IN HAND: These do not require any explanation.

DEBTORS: Should any person owe the club money, e.g. outstanding subscriptions, then these should be recorded in total here.

Club Expenses Account

If the members wish a small expense account to be drawn up each month showing the premiums received and the share and incidental expenses incurred each month, then this can be done as below.

Club Expenses Account.....(date).....

Premiums and Club Brokerage paid by members	£	s	d
	5	3	5
Less: Share and Incidental Expenses			
Share Expenses - Steel Co of Wales	1	0	11
" " - I.C.I.	17	11	
" " - B.M.C.	18	6	
	<u>2</u>	<u>17</u>	<u>4</u>
Postages		2	0
Stationery		3	0
		<u>3</u>	<u>2</u>
			<u>4</u>
	<u>£2</u>	<u>1</u>	<u>1</u>

When the annual accounts of the club are being prepared then such an expense account will be necessary to cover the year. However, see note regarding annual accounts.

Cash-book

A small cash-book should be purchased in which to record all the cash transactions of the club.

In accordance with good accounting principles:

Cash received should be shown on the left-hand side.
Cash payments should be shown on the right-hand side.

A cash-book recording club transactions might appear as under:

Date	Receipts			Payments				
		£	s	d	£	s	d	
	Subscription, May – J. Jones	1	2	8	Postages	1	3	
	” ” – R. Roberts	1	2	8				
	” ” – S. Shaw	1	2	8	Stationery	5	0	
	” ” – K. Kenny	1	2	8				
	” ” – W. Wallis	1	2	8	Cash to Bank	5	7	
		£5	13	4		£5	13	4

Assessment of Current Unit Value

The current unit value for each month is assessed by dividing the total assets of the club less any liabilities by the total club units so far subscribed for. In computing this unit value no account is taken of the surplus of 'Club brokerage and premiums' over 'Share and incidental expenses'.

An example is set out below.

Current Unit Value.....(date).....

Investments at Market Value (Market Value seven days before the meeting in accordance with Club Rules).

	£	s	d	£	s	d
40 Ordinary Shares of Steel Co of Wales at 10s	20	0	0			
25 Ordinary Shares of I.C.I. at 30s	37	10	0			
30 Ordinary Shares of B.M.C. at 10s	15	0	0			
	72	10	0			
Cash at Bank	13	1	3			
Cash in Hand	3	1	10			
	16	3	1			
	£88	13	1			

Current Unit Value: 60 Club Units £88 13s 1d
= £1 9s 6d per unit.

Bank Book

When a bank account is opened a bank book will be supplied in which will be set out all receipts and payments on behalf of the club. The cash at bank which should be shown in the club's monthly accounts should be the balance as per the pass-book less any payments made by the club but not yet recorded by the bank.

It is advisable for all cheques drawn on the account to be signed by two persons, usually the chairman and treasurer.

Record of Members' Units

It is desirable that a record of the number of units held by each member should be kept. It is a good

idea to issue some sort of receipt to each member when he pays his monthly subscription or for each member to be given some sort of record card on which his monthly payment may be recorded and initialed by the treasurer. The club record should be laid out so that each member can see quite easily how many units he holds. It is good practice to record the total number of units purchased by a member during the year on his copy of the annual accounts.

Example

Name	No. of Units held by Members						
	Jan.	Feb.	Mar.	Apr.	May	June	July etc.
J. JONES	1	1	1				
R. ROBERTS	1	1	1				
S. SHAW	1	1	1				
K. KENNY	1	1	1				
W. WALLIS	1	1	1				
Total	5	5	5				
Cumulative Total	5	10	15				

Annual Accounts

It is desirable that at every annual general meeting of the club a full set of accounts including supporting schedules and a report by the officers on the year's activities should be sent to each club member. The Association will be pleased to give any help to affiliated clubs in this regard if they will correspond with the Secretary about two months before they are due to hold their annual general meeting.

Audit

It is recommended that clubs should have their annual accounts audited by either some person outside the club or a member of the club who is not an officer. The auditor should certify the accounts to the effect that he has inspected the books of account of the club and has found them to be in order.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Agreement in Europe?

SIR, — I read your leading article of August 27th on the above question, and there is one sentence which seems to me a little misleading. You write as follows:

'There are signs that organized British industry is no longer quite so averse to such a step.'

The step being that Britain might become a full member of the Common Market.

I think many industrialists from the very beginning of the discussion regarding a Common Market were quite aware of the implications and wanted the situation fully studied by the British Government. Unfortunately, the British Government in the early stages seemed to take no interest in what was taking place, and I think the reason why, as you quote, that the proposal 'was originally rejected almost out of hand by official opinion' was a sheer lack of understanding by the Government of the day.

I would suggest that in international relationship there is a great need for the responsible Government department to have closer contact with informed industrial and commercial opinion.

Yours faithfully,

F. JOHNSTONE,

Deputy Chairman,

JOHN HEATHCOAT & CO LTD.

Tiverton, Devon.

Liquidation Problem

SIR, — I would like the advice of your readers concerning the position of a liquidator where a bank overdraft has been guaranteed by the directors of a company in liquidation and the amount of overdraft has been reduced considerably between the date on which the statement of affairs is prepared and the date of the liquidator's appointment.

In two cases recently, a statement of affairs has been presented to a creditors' meeting showing a bank overdraft, the only security for which has been the directors' guarantee. The procedure, therefore, being that the liquidator treats the bank as any other unsecured creditor and the directors have a private obligation under their guarantee to make up to the bank the difference between the outstanding over-

draft and the dividend received. In both these cases, sums of money due to the company have been paid into the company's bank account by the directors immediately prior to the creditors' meeting and after the preparation of the statement of affairs. The moneys paid in are naturally shown on the statement of affairs as a debt due to the liquidator.

On requesting the bank to transfer this amount to the liquidator's account, they have refused to do so without the consent of the directors concerned who, in each case, have refused to adopt this course. The result being that the sum that the liquidator has to distribute to the unsecured creditors is reduced and the bank's claim is reduced, and this would appear grossly unfair to the outside creditors.

What action can be taken in this matter? The bank says that the moneys were due to the company and there was nowhere else where the moneys could be put since the liquidator cannot act until his appointment and, therefore, cannot open a bank account. There is no doubt that, by this method, the directors are benefiting at the expense of the outside unsecured creditors, but is there any method of remedying this position?

Yours faithfully,

KETTERING.

Acquisition of Subsidiaries

SIR, — In their memoranda to the Jenkins Committee, a number of professional bodies have referred to the general principle that a dividend received by a holding company from a subsidiary declared out of profits earned before its acquisition should not be treated by the holding company as available for distribution to its shareholders. Surprisingly enough, no reference appears to have been made to an increasing practice on the part of some industrial holding companies of antedating their 'effective' dates of acquisition of subsidiary companies. An agreement to acquire the shares of another company on the basis of its assets at a prior date (usually the last accounting date of the acquired company) and stated to be effective from that date is often construed as making the subsequently earned profits available for consolidated profit purposes and for dividend distributions by the holding company. It is perhaps for this reason that the published results of mushroom industrial holding companies are so unreliable as a guide to future performance.

The absurdity of the practice becomes even more clear when it is appreciated that there is nothing to prevent the agreement being antedated to the date of incorporation of the newly acquired company, thereby releasing the whole of its profits for revenue and dividend purposes in the consolidated accounts.

Yours faithfully,

GREVILLE BARNARD.

London, EC2.

Taxation Case

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

Barbados Commissioner of Estate and Succession Duties v. Bowring

In the Privy Council – July 27th, 1960
(Before Lord REID, Lord COHEN and Lord KEITH OF AVONHOLM)

Estate duty – Settlement – Income to settlor for life – Power to amend or revoke with consent of trustees – No control of trustees by local court – Whether settlor competent to dispose – Finance Act, 1894, Section 22 (2) (a) – Estate and Succession Duty Act, 1941 (Laws of Barbados, No. 16 of 1941), Sections 3 (a), 7 (a).

By a deed of trust, which was executed in Massachusetts and governed by the law of that State, the deceased settled a trust fund on herself for life and then for her son. The deed enabled the settlor to amend or revoke the trust wholly or partially provided that any amendment or revocation was consented to by the trustees. By the laws of Massachusetts the Court would not control the trustees in the exercise of their power to consent, provided that they acted honestly.

On the settlor's death estate duty and succession duty were claimed in Barbados on the footing that the settlor had been competent to dispose of the trust fund.

Held: that in view of the power of the trustees to withhold consent to an amendment or revocation of the settlement, the settlor was not competent to dispose of the trust property.

Current Law

Interest on Unliquidated Damages

CARR AND ANOTHER v. BOXALL ([1960] 1 All E.R. 495) is reported on two points, one relating to costs and the other to interest on damages. Only the latter will be considered here. The defendant in a counter-claim obtained judgment for damages which he had suffered by being prevented from carrying on business in a kiosk of which he was the tenant: the plaintiffs had purchased the kiosk and refused to recognize his tenancy. The action was tried in July 1958, but an inquiry as to damages was necessary and the award of the Official Referee was not made till November 1959.

Cross, J., ordered payment of interest at 4 per cent on the damages awarded from August 1st, 1958, when the defendant re-occupied the kiosk, down to judgment.

Measure of Damages for Breach of Contract

IN Diamond v. Campbell-Jones and Others ([1960] 1 All E.R. 583) the plaintiff claimed damages for breach of a contract to sell him a leasehold house in Mayfair. The plaintiff sought to recover damages on the basis of the difference between the contract price and the value which the house would have had if it had been converted from one residence into flats and offices. The defendants knew that the property was ripe for development. The plaintiff was a dealer in real property, but this fact was not known to the defendants.

Buckley, J., said that in some cases the nature or the subject-matter of a contract or of its terms might be such as to make it clear that one of the parties was

entering into the contract for the purpose of a particular business, and the circumstances might be such that the Court would infer that the other party must have appreciated that this was so; but that this could rarely be the case where the contract was for the sale of land. Special circumstances – which his lordship did not find present in the case before him – were necessary to justify imputing to a vendor of land a knowledge that the purchaser intended to use it in any particular manner. Accordingly, the plaintiff was entitled to damages only in accordance with the principle normally applicable to cases of breach of contract for the sale of land where the breach did not arise from a defect in the vendor's title, that is to say, by reference to the difference between the purchase price and the market value at the date of the breach of contract. Since the damages would be taxable in the plaintiff's hands as profits and gains of his business, as previously noted under 'Taxation Cases' in *The Accountant* of May 28th, 1960, Buckley, J., ordered that tax should not be deducted in assessing their amount.

Signature of a Will

THE testatrix in *In the Estate of Cook, Murison v. Cook and Another* ([1960] 1 All E.R. 689) began her will, 'I, Emmie Cook . . . declare this to be my last will . . .' and ended it 'Please Leslie be kind to Dot. Your loving mother.' There was evidence that Leslie was the son of the testatrix and Dot one of her daughters.

Collingwood, J., was asked to pronounce for the will in solemn form, in spite of the fact that the testatrix had not signed it with her name. Following *In the Goods of Sperling* (1863) 3 Sw. & Tr. 272, his lordship did so. In that case the 'signature' in question was not that of the testator but of a witness, who described himself as 'Servant to Mr Sperling', not writing his name or giving any further identification, and Wilde, J., held that to be a sufficient attestation and subscription.

As further authority for the proposition that something short of a name will constitute a sufficient signature, Collingwood, J., referred to *Baker v. Denning* ((1838) 8 Ad. & El. 94) where Coleridge, J., pointed out that under the Statute of Frauds, 1677, the making of a mark by a deviser is a sufficient signing, and held that it was not necessary to prove that he could not write his name at the time; to *In the Goods of Redding (otherwise Higgins)* ((1850) 2 Rob. Eccl. 339), in which a testatrix who executed her will in an assumed name subsequently altered it by erasing that name and signing her true name, but failed to get the will as altered subscribed, and probate was granted of it as it originally stood, the Court considering that the assumed name might be regarded as the mark of the testatrix; and *Hindmarsh v. Charlton* ((1861) 8 H.L. Cas. 160), where Lord Campbell, L.C., said: 'I will lay down this as my notion of the law: that to make a valid subscription of a witness, there must either be the name or some mark which is intended to represent the name.'

Mortgagee Accepting Mortgagor's Tenant

IN *Stroud Building Society v. Delamont and Others* ([1960] 1 All E.R. 749) the plaintiff society as mortgagee sought possession of the mortgaged property from W., with whom the mortgagor, without the mortgagee's consent, had agreed that she should have a tenancy of the property at £5 5s per week. In June 1956 the mortgagor was adjudicated bankrupt, and in January 1957 the mortgagee served on W. notice to deliver up the mortgaged premises. Correspondence between W.'s solicitors and the mortgagee's solicitors made it clear that the mortgagee did not recognize her tenancy, but she did not comply with the notice to quit and the plaintiff took no steps to enforce it.

After the mortgagor's bankruptcy W. paid her rent to the trustee in bankruptcy, and she continued to do so throughout 1957. In January 1958 the mortgagee appointed a receiver under Section 109 of the Law of Property Act, 1925, and he called upon W. to pay rent to him. In March a letter was written on W.'s behalf to the mortgagee's solicitors asking that she should be sent the terms and conditions of the tenancy, and the solicitors replied that they understood from the mortgagee that the terms were the same as those between W. and the mortgagor, and that unless all rent was paid within seven days proceedings would be taken for recovery of possession. W. thereupon paid the arrears of rent and continued to pay the rent by cheque drawn in favour of the mortgagee. In July the mortgagee's solicitors sent to W. notice to quit the premises 'which you hold as tenant of the . . . Society'. It was common ground that, if there was a tenancy between W. and the mortgagee, the notice was bad, as the tenancy was a tenancy of business premises and the notice did not comply with the statutory requirements.

Applying the dictum of Harman, J. (as he then

was), in *Lever Finance Ltd v. Trustee of Property of Needleman* ([1956] Ch. 375), that the receipt of rent by a receiver so appointed did not create a tenancy between the tenant and the mortgagee, because the receiver was the agent of the mortgagor, Cross, J., held that a tenancy had nevertheless in the instant case been created, because on the facts the mortgagee had, notwithstanding the receivership, consented to accept W. as a tenant. Accordingly, the mortgagee was not entitled to possession.

Trust for Sale of Matrimonial Home

THE applicant in *Jones v. Challenger* ([1960] 1 All E.R. 785) applied under Section 30 of the Law of Property Act, 1925, for an order that a house, formerly the parties' matrimonial home, be sold and the proceeds divided equally between her and the respondent, from whom she was now divorced. The respondent had continued to live in the house after the divorce. The applicant had re-married. The judge of the Bargoed County Court dismissed the application, but the Court of Appeal (Donovan, J., dissenting) allowed the applicant's appeal. Devlin, L.J. (with whom Ormerod, L.J., agreed), said that the question was whether it was reasonable or unreasonable that the respondent should be allowed to remain in the house. His lordship referred to 'the simple and fundamental principle that in a trust for sale there is a duty to sell and a power to postpone', but said that that principle could not prevail where the trust itself or the circumstances in which it was made showed that there was a secondary or collateral object besides that of sale: it was wrong and inequitable for one of the parties to the trust to invoke the letter of the trust in order to defeat one of its purposes.

In the instant case, however, while the house was acquired as the parties' matrimonial home – that was the secondary or collateral object – with the end of the marriage the purpose of acquiring and retaining the house as the matrimonial home was dissolved, and the primacy of the duty to sell was restored. The Court still had a discretion, but there was no way in which the discretion could be properly exercised except by an order to sell, because, since the parties could not now both enjoy occupation of the property, that was the only way whereby they could derive equal benefit from their investment, which was the primary object of the trust. It was not inequitable for the applicant, once the matrimonial home had gone, to want to realize her investment. Devlin, L.J., drew attention to the distinction of the position which might arise when an application was made under Section 17 of the Married Women's Property Act, 1882. In such a case the Court might be able to give to one party or the other the right to go on residing in the matrimonial home, reaching an overall division of property through the medium of other property available for division, or achieving equality on the settlement or alimony or maintenance.

For Students

COMPANY LAW

Testamentary Gifts and Dissolved Charitable Companies

WHERE a company has been dissolved, the Court may at any time within two years of the date of the dissolution, on an application being made for the purpose by the liquidator of the company or by any other person who appears to the Court to be interested, make an order upon such terms as the Court thinks fit, declaring the dissolution to have been void, and thereupon such proceedings may be taken as might have been taken if the company had not been dissolved.

These provisions, which are to be found in Section 352 of the Companies Act, 1948, and the period of two years within which an application thereunder is to be made, must not be confused with the powers of the Court under Section 353 to restore a company's name to the register of companies where it has been struck off as a defunct company, in which case the company or any aggrieved member or creditor may apply to the Court for the restoration of the company's name before the expiration of twenty years from the publication in the *Gazette* of the requisite notice of such striking off.

Apart from the difference in the periods of time within which an application to the Court may be made under these two sections, it will be observed that Section 352 is wider in terms than Section 353 in so far as, apart from the liquidator, *any person* who appears to the Court to be interested may apply for an order, whereas under the latter section, apart from the company, only a member or a creditor may apply.

Where the Court declares a dissolution void, or orders a company's name to be restored to the register, the effect of the order is to re-vest in the company all property which, as a result of the dissolution, vested in the Crown, as *bona vacantia*.

In *Re Servers of the Blind League* ([1960] 2 All E.R. 298) a charitable company limited by guarantee entered into voluntary liquidation upon which event its assets, present and future, were vested in the Royal National Institute for the Blind, and the company was dissolved in June 1958. Under a will made in 1950, a testatrix who died after the date of the company's dissolution, bequeathed a proportion of her residuary estate to the company, and the liquidator applied to the Court for an order under Section 352 of the Companies Act, 1948, declaring the dissolution void.

If such an order had been made, the dissolution of the company would be void *ab initio*, with the result that the residuary gift would have been effective as the company would then have been regarded as having been in existence at the date of death of the testatrix; but, on the other hand, it would also result in the interest being divested from the next of kin otherwise entitled.

The Court decided, however, that it would not be right in the circumstances to exercise its discretionary power to make the order asked for, because, as a

general rule, the object of such an order is to enable the distribution of an asset which belonged to the company before dissolution but which had been overlooked and had vested in the Crown as *bona vacantia*. In the instant case, the position was different in that the residuary share had at no time belonged to the company, and the making of an order would divest property from persons who had obtained a vested interest in an asset under a title not derived from the company.

ENGLISH LAW

The Attesting Witness

UNDER Section 15 of the Wills Act, 1837, a person who attests a will as a witness is, as a rule, disqualified from claiming any benefit under the will, and the husband or wife of an attesting witness is disqualified also.

The object of these provisions (bearing in mind that the first relevant enactment on disqualifications of this kind dates back through several statutes to the Statute of Frauds 1677) was to protect a testator who was *in extremis*, or otherwise weak and not capable of exercising judgment, from being imposed upon by someone who came and presented him with a will for execution under which the person in question was himself interested.

However, notwithstanding this rule, a legatee under a will does not lose his legacy by attesting a codicil confirming it; and a person to whom a legacy is given in trust for another is not disqualified as he is not given a beneficial interest; and the section does not affect a charge or direction as to the payment of debts owed to a witness or to the spouse of a witness. Moreover, a non-beneficial clause, such as the appointment of an executor or trustee, is not invalidated if the person named therein attests the will; and a beneficiary who marries a witness after the will has been executed does not forfeit the benefit conferred (*Thorpe v. Bestwick* ((1881) 6 Q.B.D. 311)).

In *Royce's Will Trusts* ([1959] 3 All E.R. 278) a testator appointed two persons to be the executors and trustees of his will, and the will was attested by a solicitor. The will provided that the trustees should pay themselves a percentage of the income of the estate by way of remuneration for their services, and that an executor or trustee, being a solicitor, should be entitled to charge for professional services rendered. The will was duly proved by the appointed executors and trustees, but later, on the death of one of them, the solicitor who had attested the will was appointed to fill the vacancy, and the question arose subsequently as to whether he could claim any benefit under the will by reason of the provisions of Section 15 of the Wills Act, 1837.

The Court of First Instance held that the attesting solicitor was incompetent to take any benefit under the will; but the Court of Appeal reversed this decision holding that, upon the construction of the section referred to, the material time to consider whether a beneficial interest is given by the will is the time of attestation. If, then, as in the present case, at that time no benefit was given to the attesting witness but as a result of a later event an interest under the will arose in his favour it could not be said that he was at the relevant date a person to whom a beneficial interest had been given under a will which he had attested.

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ACCOUNTANCY
Elementary Consolidation

Question

Holdings Ltd holds two-thirds of the issued capital of Minor Ltd. The directors of Holdings ask

you to draft a consolidated balance sheet of the whole undertaking.

The balance sheets of the two companies at June 30th, 1959, were as follows:

	Holdings Ltd £	Minor Ltd £
Share Capital:		
Authorized, issued and fully paid shares of £1 each	500,000	300,000
General Reserve	100,000	15,000
Profit and Loss Account	180,000	55,000
6 per cent Debentures		50,000
Bills Payable issued to Holdings Ltd		50,000
Creditors	275,000	75,000
Advance from Holdings Ltd ..		125,000
	<u>£1,055,000</u>	<u>£670,000</u>

	Holdings Ltd £	Minor Ltd £
Goodwill	75,000	30,000
Land and Buildings	150,000	175,000
Plant	90,000	225,000
Stocks	50,000	100,000
Trade Debtors	105,000	90,000
Advance to Minor Ltd	125,000	
Bills Receivable (Accepted by Minor Ltd) ..	30,000	
Investments at cost:		
War Loan	40,000	
Minor Ltd		
200,000 shares of £1 each ..	275,000	
Balance at Bank	115,000	50,000
	<u>£1,055,000</u>	<u>£670,000</u>

The following information is also given:

The general reserve of Minor Ltd was £10,000 when Holdings Ltd purchased the 200,000 shares at July 1st, 1958, and £5,000 has been added out of

subsequent profits. At July 1st, 1958, there was no balance on Minor Ltd profit and loss account, the present balance of £55,000 being the profit for the year.

Answer

The problem should be approached as follows:

Step (1) – Cancel inter-company items appearing in the balance sheets. This eliminates the advance to Minor Ltd and the bills receivable from Holdings' balance sheet.

Step (2) – Transfer the cost of the shares in Minor Ltd to Cost of Control Account.

Step (3) – Credit the par value of the investment in Minor Ltd to Cost of Control Account and deduct the same sum from the issued capital of Minor Ltd.

Step (4) – Transfer the balance of the issued capital of Minor Ltd, which represents the shares held by minority shareholders, to minority interest account.

Step (5) – Write up as follows: Minority Interest and Cost of Control Accounts.

Workings

Minority interest 100,000 Ordinary Shares 1/3

MINORITY INTEREST ACCOUNT

	£		£
Balance	123,333	Ordinary Shares	100,000
		General Reserve	5,000
		P.L. Account (1/3 of £55,000)	18,333
	<u>£123,333</u>		<u>£123,333</u>

GENERAL RESERVE ACCOUNT

	£		£
Transfer to Minority (1/3 × £15,000) ..	5,000	Holdings Ltd	100,000
„ „ Cost of Control a/c (2/3rds × £10,000)	6,667	Minor Ltd	15,000
Balance	103,333		
	<u>£115,000</u>		<u>£115,000</u>

PROFIT AND LOSS ACCOUNT

	£		£
Transfer to Minority	18,333	Holdings Ltd	180,000
Balance	216,667	Minor Ltd	55,000
	<u>£235,000</u>		<u>£235,000</u>

COST OF CONTROL ACCOUNT

	£		£
Cost of shares in Minor Ltd	275,000	Nominal value of shares	200,000
		General Reserve	6,667
		Balance	68,333
	<u>£275,000</u>		<u>£275,000</u>

Step (6) - Complete the consolidated balance sheet.

HOLDINGS LIMITED			
CONSOLIDATED BALANCE SHEET AS AT JUNE 30th, 1959			
SHARE CAPITAL	£	£	FIXED ASSETS
Authorized, Issued and fully paid			Goodwill at cost
- 500,000 shares of £1 each ..		500,000	Goodwill on Consolidation ..
REVENUE RESERVES:			Land and Buildings
General	103,333		Plant
Profit and Loss Account ..	216,667		
		320,000	Total Fixed Assets
Total of Capital and Reserves ..		820,000	
Minority Shareholders		123,333	CURRENT ASSETS
DEFERRED LIABILITIES			Stocks
6 per cent Mortgage Debentures		50,000	Debtors
			Investments
CURRENT LIABILITIES			Balance at Bank
Sundry Creditors	350,000		
Bills Payable	20,000		
		370,000	
		£1,363,333	
			£1,363,333

LONDON STUDENTS' COLUMN

News from the London Chartered Accountant Students' Committee

The major event at the beginning of the autumn session is always the President's Meeting. This year it will be held on October 12th in Guildhall; Lord Chandos has accepted the President's invitation to speak.

Oxford Residential Course

The autumn week-end residential course, which is planned principally for those who have passed their Intermediate examination, will be held at Balliol and Jesus Colleges from September 15th to 18th. The subjects for lectures and discussion are 'From auditing to management accounting'; 'The future of international trade'; 'Raising business capital'; 'Recent developments in company law'; and 'How the Inland Revenue administers income tax'.

Residential courses have now become a regular part of the programme and continue to be extremely popular. The lectures promote opportunities for full discussion and the lecturers return at a later stage to answer questions arising.

It is the policy of the Society to encourage the students to form themselves into a club so that when the course is over they may all meet informally at an agreed time and place for social and other activities. As a result, there are in existence the 59 Club and the Kingsway Club which grew out of the spring courses in 1959 and 1960, and the Taverners' Club for the more senior members of the Society.

The 1961 spring course, primarily for members

who begin their articles in 1960, will be held at Cambridge next April, and full details will be circulated at a later date.

Importance of Students' Societies

The Council of the Institute has recently published a leaflet which is being issued to all newly-articled clerks and their principals. It sets out the rights and duties of both parties and tells them how important is the part which students' societies play in the training for membership of the Institute. A copy of this leaflet is to be found on the publications table in the Society's Library.

Application Forms for Examinations

Members may obtain examination application forms from the Library but should note carefully the instructions to return them, preferably two months before the examination, direct to the Institute with the appropriate fee. The rule that entries will not be accepted in any circumstances if received at the Institute less than thirty-five days before the examination begins, is enforced without exception.

Students' Centre

There has been a very good response to the questionnaire on the possible setting up of a students' centre, and the Committee welcomes this expression of views by so many members.

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Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES November 1960 Examinations

Details of the November 1960 examinations of The Institute of Chartered Accountants in England and Wales and The Society of Incorporated Accountants (in voluntary liquidation) are announced under 'Official Notices' elsewhere in this issue. The Final examination will be held from November 29th-December 2nd; the Intermediate from November 22nd-24th and the Preliminary from November 15th-18th; the Society's Final examination will be from November 8th-11th.

The announcement draws the attention of candidates to the fact that entry forms should be submitted to the Institute as early as possible and that late entries cannot be accepted. The last day for the receipt of entries is: Preliminary, October 11th; Intermediate, October 18th; Final, October 25th; and Society Final, October 5th. Entry forms may be obtained from the Secretary of the Institute, at Moorgate Place, London, EC2.

PROFESSIONAL NOTICES

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co, Chartered Accountants, announce that as from September 3rd, 1960, the address of their Brussels office will be Centre International Rogier 1701, Place Rogier, Brussels, 1. Telephone: 17.92.86. Telegrams: Deloitte - Brussels.

MESSRS MAJOR & Co, Chartered Accountants, of 89 Cornwall Street, Birmingham, 3, announce that Mr J. F. JEE, A.C.A., has retired from the firm as from August 31st, 1960, to take up a commercial appointment. The practice will be carried on by the remaining partners, the style of the firm being unchanged.

Appointments

Mr Denis R. Ward, F.C.A., and Mr Arthur W. Gurney, A.C.W.A., assistant secretary and chief cost accountant, respectively, of Hadfields Ltd, have been appointed local directors of the company.

Mr George H. Hain, C.A., secretary of The Times Furnishing Co Ltd, has been appointed a director of the company. He has also been appointed secretary of The Times Furnishing (Properties) Ltd.

Mr L. F. Trueman, A.A.C.C.A., has been appointed secretary of Vickers-Armstrong (Aircraft) Ltd.

STATE SCHEME

The British Institute of Management has published the papers given at the Institute's one-day conference

on 'The Government pension scheme, 1961', held in London on May 24th, 1960.¹

A short introduction has been specially written by the conference chairman, Mr G. R. Moxon, chairman of the B.I.M. Human Relations Advisory Committee and industrial relations officer of United Glass Ltd, followed by 'The social, economic and political implications of the State graduated pension scheme of 1961', by Mr A. Seldon, of the Institute of Economic Affairs, and Mr S. R. Plant's paper on 'Why Ind Coope decided to contract out of the State graduated pension scheme of 1961'. The appendix contains the results of a brief survey carried out by the British Institute of Management shortly before the conference in order to determine the extent to which a representative section of British industry was participating in the Government pension scheme.

MANCHESTER STUDENTS' RESIDENTIAL COURSE

The Joint Tuition Committee of the Manchester Society of Chartered Accountants and Manchester Chartered Accountants' Students' Society has arranged to hold a residential course for Intermediate and Final students at Lyme Hall, near Disley, from Monday, September 26th, to Saturday, October 1st (inclusive). The course is intended to give students - especially those unable to attend the Saturday morning lectures at Manchester or Preston - an opportunity to hear lectures on the more important subjects covered by the examination syllabus and to discuss their problems with contemporaries and with the resident tutor, who will be available throughout the week.

The enrolment fee is £12 1s 6d and the latest date for receipt of applications is September 9th. Further particulars can be obtained from the Assistant Secretary at 46 Fountain Street, Manchester, 2.

COST ACCOUNTANTS' EXAMINATIONS

Owing to incorrect information secured, the prize-winners in the June Fellowship examination of The Institute of Cost and Works Accountants were wrongly designated in our last issue. Mr R. G. H. Nelson, F.C.A., A.C.W.A. was awarded the Lewton Coronation Prize and Mr H. H. E. Beck, A.C.A., the Beyer Peacock Prize. These names were previously transposed.

¹ *Government Pension Scheme, 1961*, British Institute of Management, 80 Fetter Lane, London, EC4. Price 7s 6d (6s to delegates of the conference and B.I.M. members), postage 4d.

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THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for bible reading and prayer will be held at 12.30 p.m. on Monday next in the vestry of St Mary Woolnoth Church, King William Street, EC3. The scripture for reading and thought will be Revelation, Chapter 3, verses 7 to 12 (An open door in keeping His word).

HOCKEY

Chartered Accountants 5; Bank of England 0

The recent wet weather threatened to cause the cancellation of the last fixture of the 1959-60 season of the Chartered Accountants' Hockey Club. Fortunately, however, a fine evening allowed the annual match against the Bank of England to take place as arranged.

After two heavy defeats in previous years the Bank endeavoured to turn out their full 1st XI but in this they were not successful. Anticipating a hard struggle, the Chartered Accountants' team had been chosen accordingly, and in the event they proved once again too strong for the Bank. The difference between the two sides was most evident in the forward line for whereas the Accountants were capable of keeping the ball near the opposing goal and creating many scoring opportunities, the Bank's line was ineffective and depended on occasional errors by the Accountants' defence to present them with the ball within scoring distance.

In the Accountants' team, Boobbyer played well at centre half and Garside at left back. Telling from outside-right scored twice, as did Dorman from inside-left. Hines, who travelled down from Suffolk, also scored to make the Accountants' tally five.

Chartered Accountants team: S. N. Elgar (Hampstead); P. C. Kay (Hampstead), F. H. Garside (Rickmansworth); M. F. J. Hodder (Berkhamsted), P. J. Boobbyer (Wimbledon), R. M. Dunham (Harlow); A. C. Telling (Merton), J. A. Hume (Barnet), A. F. J. Hines (Bury Y.M.C.A.), M. S. Dorman (Hawks), B. E. Taylor (Bromley).

THE INSTITUTE OF INTERNAL AUDITORS Manchester Chapter

The Manchester Chapter of The Institute of Internal Auditors commences its third session on September 13th, when Mr P. E. Lissant, T.D., B.C.L., M.A.(OXON.), legal adviser, National Coal Board (North Western Division), will give a paper on 'Some legal aspects of contracts'.

The meeting, which commences at 7 p.m., will be

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 5th, 1885

Extract from a leading article entitled:

MUNICIPAL ACCOUNTS

In another column we give the text of a report drawn up by a Committee of the Manchester Corporation, appointed to inquire into the question of the audit of the city accounts, the checking of contracts, and the mode of receiving moneys. These subjects are of such interest to accountants, and have assumed such great importance that we have given the report in full. . . .

The proposition that the term of office of the professional auditors be not less than three nor more than five years, is probably as good a solution as could be suggested in regard to this particular matter. A tenure of reasonable length will give the auditors an opportunity of recouping in the latter part of the period any loss which it is very probable would be incurred in the earlier years. On the other hand, the periodical change will secure to the satisfaction of the few, who may desire such a security, that there will be no collusion between the professional auditors and the permanent officials, and if we may be allowed to suggest it, the constant change may act as a useful spur in stimulating the auditors for the time being to do their work with scrupulous carefulness, and quicken them to make all necessary and desirable improvements.

held in the Chartered Accountants' Hall, 46 Fountain Street, Manchester, 2, and the chair will be taken by Mr A. D. Compston, President of the Chapter, and Chief Internal Auditor of the North Western Electricity Board. A cordial invitation is extended to all interested.

Further information regarding the activities of the Chapter may be obtained from the Chapter Secretary, Mr R. S. Rossiter, divisional internal auditor, Shell-Mex & B.P. Ltd, 7 Oxford Road, Manchester, 1.

Formation of Irish Chapter .

The inaugural meeting of an Irish Chapter of The Institute of Internal Auditors will be held at 5.30 p.m. on Wednesday, September 21st, at *The Shelbourne Hotel*, Dublin. Mr J. O. Davies, F.C.A., A.C.W.A., European Regional Director of the Institute, will be present to explain the functions of the Institute and the conditions of membership. All who are interested in internal auditing are invited to attend.

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Physician, Heal Thyself?

THE correspondence columns of this journal, as we have so often emphasized before, are an open forum for the discussion of all matters of interest to the accountancy profession. In accordance with this policy, we have been publishing in recent weeks a varied selection of letters dealing with the allegedly autocratic attitude of the Inland Revenue towards provincial practising accountants. It all began when representatives of a number of firms in a north-western town found time, busy although they were, to get together to discuss their grievances in this connection and, thereafter, to set out their findings in a letter which we printed in our issue of July 16th. This sparked off a series of replies which developed (and sometimes digressed from) the original theme. Three main points of view may be identified in the correspondence and we feel that it might be helpful if we were to summarize these briefly.

The first is the unequivocal contention that certain officials of the Inland Revenue are the sinners in that they on occasion ask needless questions, overlook the significance of the auditor's report and are too impatient of delay. These charges, or similar ones, are not a new development. In 1929 and again in 1932, *The Accountant Tax Supplement* published leading articles with the significant titles 'Official courtesy' and 'Accountants and Revenue officials' commenting on instances reported by practising accountants. In the second of these articles, we ended by saying:

'Where accountants and officials meet in harmony, the work of both is facilitated and there are many ways in which each can help the other. Accountants have to perform much work for which they cannot hope to be remunerated and Inspectors can minimize this by using discretion in raising queries as the result of investigation of accounts. On the other hand, accountants should always be ready to meet the reasonable wishes of the officials and to do all that is possible to make their task less difficult.'

This pacific precept, made nearly thirty years ago, is patently still valid today. Relations between the two sides could doubtless be easier if, on the one hand, the Inland Revenue staff in general were more familiar with the intricacies of accounting and company law and, on the other, provincial practising accountants, much of whose work entails making intelligible the lowest forms of accounting records, were not so harassed. Two things, however, should always be remembered. One is that, as we said in the first leading article referred to above, 'where one act of discourtesy is reported to us perhaps a thousand courtesies will pass unnoticed' and the other is that, as a recent correspondent shrewdly remarked, 'frequently a personal chat with the Inspector soothes much of the irritation'.

The second – and middle of the road – viewpoint is that the professional accounting bodies should come to the aid of practitioners, particularly those in the provinces, by pressing more insistently for the registration of accountants and by laying down scales of fees which, if he charged them, would enable the smaller practitioner to employ more competent staff. The first of these – registration – is an ideal which the councils of the professional bodies have constantly before them and, indeed, are never allowed to forget but its accomplishment must inevitably be gradual. A backward glance at the history of the profession during the present century is sufficient to refute the contention that nothing is being done. When the unification of the profession is achieved, then that will be the time to talk of laying down a definitive scale of fees. One cannot impose a price on an open market where services of an inferior quality at cheaper rates are still legally and readily available.

The third viewpoint brought out by this helpful

correspondence is that, to put it bluntly, the provincial accountants themselves are the sinners and that they should reorganize their practices until they positively radiate efficiency. This, again, is not an original thought as, for many years now, in academic retreat at Oxford, Cambridge, St Andrews and elsewhere, accountants have frequently debated the problem and the popularity of the topic indicates that the point has substance. As a further contribution to this perennial subject and – we hasten to add in self defence – without necessarily subscribing to the opinion that all provincial practising accountants could improve the standard of their services, we begin in this issue immediately below these lines, a series of articles on practice organization. Though written primarily with the needs and limitations of the smaller firm in mind, we and the author modestly hope that these articles will be of use to all members of the profession in practice – metropolitan as well as provincial.

Practice Organization

I – AUDIT NOTEBOOKS

by R. S. WALDRON, F.C.A.

Introduction

EVERY member of the profession at some time in his career has cause to consider one or another of the points embraced by the phrase 'professional etiquette'. There are those who aver that there is little practical meaning in such a phrase in these days of intense competition, take-over bids and amalgamations, and that to meet such threats to the stability of one's practice it is necessary to be equally commercial.

This series of articles is intended to show that an insistence on minimum standards of conduct and organization in even the smallest practice, as an essential of adequate service to clients, will not only enable the practitioner to adhere to the highest standards of his profession but will also bring its full measure of reward in offering to clients a progressively greater and more worth-while service than may be forthcoming at the moment.

A time-honoured topic of discussion, which has recently had yet another airing in the correspondence columns of this journal, is the position of the small unit in the world of professional accountancy, and even more, perhaps, the scale of fees charged by the profession and

salaries paid to staff. It should be admitted at the outset that the small accountancy firm cannot compete with the large practice in providing specialist services on every aspect of the work coming into accountants' offices nowadays. No single accountant can hope to know all there is to know on such diverse subjects as estate duty, income tax, company law, trusts, arbitrations and so forth. On the other hand, second opinions on all or any of these subjects can and should be sought, when necessary, from larger firms by smaller ones. False pride on such matters is a grave disservice to one's clients.

Where the smaller firm scores is perhaps most of all in the very personal nature of the accountant's relationship to his client. Ideally, he is the financial family doctor, and this very strong link between the practitioner and the client gives him many immediate advantages over his larger contemporary; it enables him to offer advice of a less general and more particular character on any given financial problem and allows him to appreciate the background of his client's affairs more readily.

It is obvious that in generalizing on the ideal relationship in this way, we are left with the

impression of an individual dealing with individuals; whereas there are, in fact, many gradations between the smallest unit and the largest. It does, however, remain true that the smaller firms tend to deal with the smaller businesses, which is only natural. Apart from a tendency on the part of practitioners in such cases to overwork themselves and not to delegate their work sufficiently to allow themselves a reasonable amount of mental relaxation (so necessary to any professional man), this also generally means that the smaller firm has to work harder at routine to earn its fees: for larger businesses tend to pay more generously than small ones for services rendered.

Service to Clients

It has been suggested at high level that many accountants in small practices do little by way of service to their clients to justify the years of study and training they have had to undergo. Having regard to the fact that accountancy is first and foremost a profession, the yardstick in examining this point must be the extent of the real service rendered by the practitioner. If it is true, as I believe most people would sincerely admit, that the small practitioner has far less spare time than his better-organized colleagues in the larger units, this must result in several practical difficulties.

I have already referred to the question of relaxation, with its effects on health and the ability to concentrate, and I have also mentioned the frequent failure sufficiently to delegate detail work. Let us consider then, at this point, what is the most vital part of the work of the partner in a firm of professional accountants. It is, first of all, to be accessible to his clients, and here the smaller firm usually scores good marks. Secondly, however, it is to be able to take a wider view than his audit clerk can – both by his experience and his position remote from immersion in that detailed work of auditing, testing and checking in which the audit clerk, however senior, must involve himself. Practitioners should never, therefore, become to any permanent degree, senior audit clerks.

There is another aspect of work which it is necessary to consider: any practitioner who takes work home every evening, who works late at his office and fails to eat a proper lunch at the proper time, and who does these things because he cannot otherwise complete his work (and there are some who do so simply from lack of proper organization), whether his main problems are of a financial nature or arise from staff difficulties,

has little time to spend on the essential study that every professional man requires. It is well known that knowledge only begins with study and examinations under articles; we go on learning all our professional lives. Many claim to learn most from experience and this must be so; but it has been stated, as has been observed earlier, that there are some accountants whose day-to-day work can hardly be said to justify the highly-skilled training a qualified practitioner has undergone. If this is denied, it is pertinent to question how those accountants who have virtually no spare time at all, keep their professional knowledge up to date. This cannot be achieved by experience alone. Experience must go hand in hand with constant awareness of developments in legislation, case law, modern methods, research, professional pronouncements and the like, apart from the gaining of whatever knowledge can be acquired of developments in the trades, industries and professions of clients.

In the long run, the man who pleases his clients gets his due reward. If a practitioner is content to provide computations for the Inland Revenue he can expect no more than the sort of fee that such work can justify. If, on the other hand, he provides imaginative accounts, new designs of comparative statements, helpful critical reports and similar services, he may well find that he will create such interest in his work on the part of his clients, the village shopkeeper and the farmer included, that they will realize they are receiving a real service, not merely putting up with a tiresome necessity. When they do this, the fee will fall into place far more easily. It must still be admitted that clients as a whole have not realized the extent to which increased costs, especially salaries, have affected the practising accountant. It also remains true, however, that there is little hope of increasing fees to any real extent if there is no attempt to give a truly professional level of service. It can hardly be denied, moreover, that the rendering of the highest possible standard of service is so much more interesting and satisfying both to the accountant himself and to his staff.

Audit Notebooks: Form and Content

Let us commence our examination of this subject by considering what should be the form and content of the audit notebook employed by the staff and partners. In many cases, especially in the type of office where the main work concerns small traders with incomplete records, the term 'audit notebook' might more appropriately be altered to 'accountancy notebook', but some such record

should certainly exist whether an audit, as such, occurs or not.

It should be borne in mind that the whole of the work carried out by the professional accountant in the course of his audit work culminates in a single set of documents, i.e. the published accounts (together with any reports produced in connection with them). That being so, the design of all the aids to efficient audit organization must be arrived at after considering the form which will lead to the production of a more useful and informative set of documents without neglecting the basic legal essentials.

If we consider, first of all, the particular factors of a new audit, they might be classified as follows:

- (1) the accounting system and books employed;
- (2) the internal check (if any);
- (3) the audit programme to cover the position of (1) and (2) above.

An approach on this basis may very well enable an audit of the books of account to be carried out: indeed, there may be practitioners who do not undertake even this cursory view of individual characteristics but have a 'standard' audit procedure, irrespective of the real system (or lack of system) of their clients.

How superficial, however, must be such an approach to a problem which demands intense preliminary study! If the final accounts of any business are to be of use to the proprietors or management, it is essential that the whole problem should be approached in a scientific manner. It is vital that points such as the following should be examined before planning the programme of work:

- (1) system of production, manufacture and/or distribution of goods;
- (2) physical sequence of consumption of raw materials;
- (3) use of labour;
- (4) background of the business and the industry generally.

Need for Flexibility

It should be realized at this stage that no audit programme can be permanent. Systems develop and change, businesses expand, and it is obvious that any programme must be flexible enough to allow of a periodic review of the work carried out. The programme of work, depending as it does on the systems of manufacture, distribution and administration in existence, must change and vary as those systems change and vary.

Therefore it is essential that the audit notebook should not constitute a rigid set of instructions to be followed irrespective of circumstances, but a

record of all relevant information connected with the particular business, its situation, character and system, maintained in an up-to-date state, together with an outline of the audit procedures to be followed. Such an outline has two essentials – firstly, a regular review of its detailed application at intervals of not more than three years (and more often if the system has changed); secondly, enough room left for the employment of less conventional tests from time to time so that even the regular pattern of audit work does not become too set.

In this way, even the routine of the audit may be prevented from becoming an automatic and unenterprising matter; such a notebook should preferably, therefore, take the form of a loose-leaf record, so that it may be kept up to date without difficulty. It should be divided into sections as follows:

- (1) general description of the business (including its constitution);
- (2) notes as to cash, wages and stock recording systems;
- (3) details as to the recording of fixed assets;
- (4) details of contracts (including service agreements) with names and positions of senior staff;
- (5) details of internal check in force;
- (6) audit programme.

In addition, there should be permanent records of comparative figures relating to the assets and trading results of each client and of the taxation computations.

With all these documents, audit staff should be encouraged to criticize the existing records and audit programme and to suggest amendments and improvements, though of course no actual alterations in the audit work should be permitted except by consultation with the principal or supervising partner of the firm.

It has been found in practice that the method of filing by means of a single fastener in the top left-hand corner of the documents, often adopted by practitioners, is not entirely suited to a permanent file, as it allows the pages to become mutilated at the edges too easily over a period of years. A far better system is a stout file-cover with a two-prong metal binding strip, with locking slides at the left-hand side of the pages. This necessitates the use of good paper with a generous margin on the left, and of course (as in all working papers) only one side of the page should be used for recording information of any sort. Another essential is a reliable index, for which coloured dividing sheets are a great advantage.

Allowances for Machinery and Plant

THE RENEWALS BASIS

by T. J. SOPHIAN

WHEREAS the normal process of making adjustments and granting reliefs for expenditure incurred in replacing machinery and plant is by way of the system of balancing allowances or balancing charges as the case may be, as laid down by the Income Tax Act, an alternative basis is open to the taxpayer, if he makes an election to that effect. This alternative basis is generally known and described as the 'renewals basis'. It does not appear, however, to be backed by any statutory authority, and is concessionary in its character.

The chief distinction between the renewals basis and the normal basis of reliefs is that while, under the latter, annual allowances for wear and tear at a gradually diminishing rate are granted during the life of the particular machinery and plant, no such allowance is granted under the renewals basis. The taxpayer has to wait until the renewal takes place, whereupon, instead of adjustments being made by way of balancing allowances or charges, a deduction of the whole of the cost of the replacement, subject to a qualification to be presently noted, is made from the profits. There is, however, this qualification. If the taxpayer was granted an initial allowance in respect of the original purchase of the machinery and plant now being replaced, the amount of that allowance will be offset against the cost of the replacements; so that the cost of the replacement *less* the amount of the initial allowance will only be deductible against the profits.

Replacements of Improved Value

It is likely, of course, that the replacements may be superior to the old machinery and plant. In that event, the cost price of the replacements must, as it were, be dissected. Such part of that cost as represents the improvement element in the replacements, will then, in effect, be treated separately, as if it were a separate acquisition of separate machinery and plant.

When the old machinery and plant is being replaced, in addition to the deduction against the trade profits that may be made in respect of the cost of the replacement, the question will further arise as to the capital allowances that can be claimed in respect of the replacements.

Whether the replacement is of an identical nature, so that no element of improvement enters into the picture, or whether it is an improvement on the old, so that there will be an improved value, the investment allowance can be claimed in each case in respect of the *whole* cost of the renewal.

The position with regard to the initial allowance, however, is not the same. Assuming that there is no element of improvement, and that the *whole* cost of the replacements falls to be deducted from the profits, there will be no initial allowance in respect of the replacements. The reason is that the allowance will be excluded by the operation of Section 330 (1) (a) of the Income Tax Act, 1952.

Section 330 (1) defines 'capital expenditure' and 'capital sums', and in relation to the person incurring the expenditure or paying the sums, the definition in paragraph (a) of Section 330 (1) provides that they are *not* to include 'any expenditure or sum which is allowed to be deducted in computing for the purpose of income tax the profits or gains of a trade . . . carried on . . . by him'. Accordingly, the cost of the replacement being allowed as a deduction against the profits does not itself qualify for an 'initial allowance'.

Separate Treatment of Improved Value

If, however, there is an improvement value in the replacements over and above that of the original machinery and plant being replaced, then the improved value of the replacement will rank, in effect, as a separate capital expenditure. And in relation to that improved value of the replacement, an 'initial allowance' can be granted.

It may be that a few illustrations may help to make the position clearer.

Equivalent renewal

An original purchase is made of new machinery and plant for the sum of £1,000.

The reliefs will then be:

	£
Investment allowance: 20 per cent of £1,000	200
Initial allowance: 10 per cent of £1,000 ..	100
	<hr/>
	£300
	<hr/>

There will be no annual allowances.

The machinery and plant is subsequently replaced by *identical* replacements of identical value, similarly costing £1,000. The taxpayer will now be entitled to a deduction from his profits of:

£1,000, less original initial allowance of £100	£ 900
He will also be entitled to an investment allowance of 20 per cent of £1,000	.. 200
	<hr/>
	£1,100
	<hr/>

Improved renewals

If, however, the replacements were an improvement over the old machinery and plant, and the cost of the replacement was £1,500, of which £500 represented the improved value, then the reliefs would be as follows:

The deduction against the trade profits would be limited to £1,000, less £100 (the initial allowance on the original purchase) = £900. There would be an investment allowance of 20 per cent of £1,500 = £300. And, it should be noted, there would also be an initial allowance of 10 per cent on the improved value of £500 = £50.

Cost Accounting at the Cross-roads

I—PRINCIPLES AND OBJECTIVES

by KENNETH S. MOST, LL.B., F.C.A.

FORTY years ago the profession of cost accountancy was virtually non-existent. In Britain, the Institute of Cost and Works Accountants had just been founded (an initiative for which engineers were as much responsible as accountants), and in the U.S.A. the position was in many respects the same. Cost accounting, where it was practised, was largely a by-product of financial accounting.

During the period which has elapsed there have been many developments in the methods and techniques of cost accounting. Nevertheless, an examination of the early literature shows that the basic principles underlying these methods and techniques have undergone little or no change. The three basic ideas with which succeeding generations of cost accountants have rung the changes, namely, actual, standard and marginal costing, were known and practised forty years ago. Further, the proportion of businesses, in Britain at least, which operate cost accounts adequate for the determination of cost under one or more of these headings, although it has risen consistently throughout the period and more rapidly since the last war, still falls short of the level which we believe to be attainable. Even more remarkable, many of the business men who are under the impression that they are using costing figures for their business decisions, are in fact relying upon figures prepared in accordance with dubious procedures – some of them inimical to the efficient management of the business they are designed to serve.

Between the serenity of the expositions of costing methods which characterized the first

textbooks on the subject and the present-day divergence of practice, lies a period during which a number of problems have presented themselves to cost accountants in the course of their work, problems of which the first generation was only dimly aware. The consequence of having to face these problems without a sound theoretical basis for the practice of cost accounting is that today there are nearly as many types of cost accounts as there are cost accountants!

In spite of differences of size, professional function and objectives, it would appear that there should be a residue of principles which are applicable to all cost accounting, irrespective of the form which the end-product will take. Once we depart from the descriptions of methods of recording and simple arithmetical assertions which are the usual stuff of costing textbooks, however, it becomes apparent that all is far from well in the 'science of cost accounting'. It is time to examine the concepts upon which the subject has been built, the methods used by cost accountants to achieve their objectives, and the problems which are responsible for the lack of uniformity which is an outstanding characteristic of cost accounting today.

What is 'Cost'?

The word 'cost' is clearly a relative term. In its *Terminology of Cost Accounting* published in 1952 The Institute of Cost and Works Accountants provided the following definition:

2.2 Cost

- (a) The amount of expenditure incurred on a given thing.
- (b) To ascertain the cost of a given thing.

Two questions arise; first, What is expenditure? and secondly, whether a 'given thing' can be so accurately specified that expenditure on it becomes its absolute cost.

Where a product is manufactured, for example, fixed material and labour specifications must obviously be arrived at before an absolute cost can be developed, and also the machine processes to be engaged in its manufacture. But other elements enter into the picture which are not such obvious requirements. The quantity produced in a certain period should also be a part of the specification, because of the incidence of fixed costs. The size of the batch is another factor to be considered, because of certain semi-fixed costs such as machine setting-up time and operative output trends.

The Institute of Chartered Accountants in England and Wales in its *Developments of Cost Accounting* (1947) paragraph 14 (b) defined cost ascertainment as

'The allocation of expenditure to specific activities, processes or products.'

Evidently the problem of defining expenditure is a key difficulty in understanding the nature of 'cost'. Neither definition brings out the vital point that costs can only be ascertained in relation to a specific organization, such as a business.

If accounting is the science of recording, measuring and interpreting values, and the movements of values, which are capable of being expressed in monetary terms, then it is first necessary to discover which types of values are dealt with in cost accounting; there is otherwise no justification for the epithet.

Financial Accounts are not Cost Accounts

Financial accounts contain two types of values: those showing the status of a business at a certain date (assets and liabilities); and those which show movements between two dates (revenues and expenditures). Cost accounts relate to work done, and can therefore be said to record movements.

Can we use the financial accounts for revenues and expenditures for our cost accounting? The answer is that we cannot. Revenues do not coincide with performances, expenditures do not coincide with costs. A purely speculative profit on the sale of raw materials held for manufacturing is a legitimate business revenue for the period, but would not appear on the credit of the manufacturing cost accounts. Many expenditures must be left out of cost calculations – charitable donations, excessive depreciation or depreciation on

machines not in use, experimental work which leads nowhere – all these are expenditures which would not be regarded as manufacturing costs by a manufacturing business. Some values are treated as costs which are not represented by expenditures, e.g. depreciation on fully-amortized machinery; proprietors' remuneration not charged as such in the financial accounts; the manure which a farmer spreads on his land.

Under the heading 'capital expenditure' we have a whole series of situations where expenditure is not the same as cost. In the case of land purchased which does not experience any change in value as a consequence of use, we are faced with an expenditure which will never be a cost.

The situation has been expressed in the following form by Schmalenbach (*Kostenrechnung und Preispolitik*, Westdeutscher Verlag, 1956):

Financial accounting	Neutral expenses	Expenses also costs	
Cost accounting		Costs also expenses	Other costs

A similar diagram can be presented for revenues and performances.

The fact is that a business resembles an iceberg, eight-ninths of which is submerged. The financial accounts represent what can be seen by the outside world – movements of materials, labour, services and cash in and out of the business. The cost accounts contain the movements of values which are not visible to the outside world – utilization (and waste) of materials, labour and expense and consumption of values which do not arise from transactions with third parties.

Types of Cost Accounts

In order to record these movements of values, cost accountants use different types of cost accounts. These may be non-accounting or statistical, as where costs are accumulated outside the accounting records of the business from sources chosen by the person recording. If accounting properly so called is used, it may take a variety of forms. It may be independent of the financial accounts, in which case, although constructed on double-entry principles, a different set of criteria is used in deciding what to record, and when. It may be interlocked with the financial accounts, which means that whole segments of the financial accounts are lifted bodily and taken to the cost accounts, a control account being used to maintain the arithmetical basis of the double-entry system. In this case, different criteria may be

used for the classification of similar items in the two book-keeping systems.

Finally, we may have an integrated system, in which figures appearing in both the financial and cost accounts are dealt with in the same way in both; and figures which appear in one set of accounts and not in the other are properly segregated, e.g. by using reciprocal transfer accounts as offsets.

It is sometimes said that cost accountants have a free hand in determining which of these different systems to adopt, and also that the choice will depend upon the objects of costing. In many cases, however, personal difficulties obstruct the free choice, particularly where the cost accountant is confronted by a financial accountant who is unable to see the close relationship between the two functions. But the integrated system is always the ultimate object. It ensures that the source data are accurately obtained, that different uses of the same data can be reconciled and interpreted, and that the total accounting function is performed in the most logical and economic fashion.

Costing – the Measurement of Work Done

We have been dealing with the cost accounts which contain monetary values of costs and performances. But underlying these monetary values are quantities of materials, labour and services consumed or wasted, and of work done. Costing relates the monetary values to the physical quantities for each of these as a sort of common denominator.

The basic input-output model is therefore non-monetary, and quantified by means of significant units of measurement. Labour is usually measured in terms of time by means of actual or standard hours worked or produced, but may be measured in pieces produced or operations performed. Materials used are measured in units of weight, volume, area or whatever appears most appropriate. Services and supplies purchased in the form of expenses are of so many different types that it is rarely found practical to express each one individually in its most appropriate unit of quantity; some rule of thumb method is devised whereby expense is expressed in periods of time, or in terms of materials or labour input, or as a combination of all three.

All quantitative measurements for input can also be related to output or performance (e.g. production), and this leads to the concept of *unit costing*, i.e. ascertaining cost per unit of time, service or product produced.

Costing Related to Organizations

We have said that costing is relative not only to what is consumed and what is produced, but also to a specific organization. Every organism is part of a larger one: the machine shop is part of the factory, the factory of a business, the business of a group, and the group of a sector of the economy, or the economy as a whole. Each of these 'entities' incurs costs in order to perform its functions of machining, marketing, earning a profit, and so on. Each entity's costs are personal to it, and a measurement made for one is not likely to be applicable to any other, although instructive use can be made of comparisons if differences are kept well in mind.

This means that within a business costs can be ascertained in relation to component parts, which leads to the concept of *cost centre costing*. Such parts may be locations, either internal (departments) or external (sales territories). They may also be items of equipment, not necessarily in the same location or under the control of a particular official, e.g. a number of identical machines, or a group of complementary ones. Finally, the parts may be persons, identified by their authority to incur costs.

In the last of these divisions, an attempt is made to analyse the cost of a business in terms of *responsibility centres*; a responsibility centre being a person who incurs costs for certain objects. In the last resort, the performances of a business are personal performances, based upon individual managers' abilities to utilize the resources placed at their disposal. Of course, there are many businesses where a clear-cut division of responsibilities cannot be obtained, and there are situations – such as the maintenance work of a business with its own maintenance department, – where responsibilities are allocated over a number of persons. Responsibility accounting is rarely a mathematically precise solution to the problem of how to gather costs, but where applicable it obviously answers the need to provide data for cost control and is also capable of providing for the other objects of cost accounting.

Objects of Costing

All consumption of materials, labour and expense is undertaken by a business in order to produce something – a product or a service. The business takes from the total economy whatever it requires for this purpose and the value of what it takes should be less than the value of what it produces, in which case a profit is earned. If not, then we call the business uneconomic.

We desire to know the cost of the product or service performed for a number of reasons:

- (1) *to control it*, i.e. to keep it at a certain pre-determined level;
- (2) *to reduce it*, i.e. to produce more economically;
- (3) *to market the product*, i.e. to determine the level of sales which will permit the most economic utilization of the factors of production; to assess the efforts of changes of quality, of sales or production levels and of sales or production mix; to decide whether to make or buy at successive stages of the manufacturing process, and so on;
- (4) *to price the product* where no market price exists or where price is susceptible to change because of cost factors; also, as a guide to profitability, since profit depends upon the total revenues from all prices exceeding the total cost of all products or services, and a firm having a multiple product output can vary its selling price policies to produce the most economical utilization of its capacity;
- (5) *to measure profit*; here it is not merely a question of calculating unit costs, comparing them with prices obtained and multiplying the difference by the quantity sold. The profit measurement operation proceeds by offsetting cost of sales against sales for all the business's activities; but

this involves valuing residual stocks, i.e. ascertaining the amount of the factors of production still on hand, or 'unconsumed', at the end of the period, in the form of work in progress and finished goods.

Arithmetic Involved

The main types of calculation used for ascertaining costs are addition, multiplication and division. Addition is the normal procedure for job or contract costing, e.g. in the construction industries. Division is usually found in manufacturing industries which do not use standard (predetermined or estimated) costs, total costs of a batch or process being divided by the number of units produced. Both addition and multiplication are features of standard costing, the components of the standard cost being multiplied by the number of units produced at each stage of manufacture in order to calculate the amount chargeable to work in progress, and the components then being added together before being multiplied by the number of finished pieces produced or sold, in order to calculate the amount to be charged to finished goods, or cost of sales.

(To be continued.)

The Accounting World

UNITED STATES

Staff Training Programme for Smaller Accounting Firms

THE American Institute of Certified Public Accountants' course of practical instruction for junior accountants is now being run at five university centres and is aimed at the smaller-sized accounting firms.

The programme has been developed by the American Institute to help junior accountants bridge the gap between their formal education and the actual requirements of public accounting practice. It will be extremely valuable to the smaller-sized firm that has hitherto lacked the facilities and necessary capabilities to prepare an adequate staff training programme.

The course is scheduled to last for ten days and has a most comprehensive curriculum. The major subjects covered will be the certified public accountant and his profession, proper working paper preparation, internal control, audit procedures assigned to juniors, personal and corporate tax return preparation, non-certificate examinations, the rules of professional conduct as they apply to juniors, accountants' legal responsibility and, lastly, speaking before small groups.

It is intended that the best available practices will be taught by means of lectures, discussion, problem-solving sessions, independent reading and study. The course will thoroughly review the various types of work normally done by a junior during his first two years in the profession.

CANADA

Qualifications in the Auditor's Report

THE Committee on Accounting and Auditing Research of The Canadian Institute of Chartered Accountants has issued a new bulletin, No. 18 in the Accounting and Auditing Practices series, on *Qualifications in the Auditor's Report*.

In Bulletin No. 17, the Committee recommended a new standard form of audit report, the principal feature of which was the inclusion of a 'scope' paragraph. The new bulletin now suggests some modifications that might be used where the auditor wishes to make an exception or use a qualification in his report.

The usual circumstances that prevent an auditor from giving an opinion without qualification or exception are divided into three categories:

- (1) *Auditing deficiencies*, including:
- (a) failure to obtain essential information; and
 - (b) limitations in the scope of the examination.
- (2) *Accounting deficiencies*, including:
- (a) failure to disclose essential information;
 - (b) failure to adhere to generally accepted accounting principles; and
 - (c) inconsistencies in the application of generally accepted accounting principles.
- (3) *Disagreement on valuation*

The Committee states that the proper presentation of a qualified opinion requires a clear explanation of the circumstances which prevent the auditor from expressing an opinion without qualification. Where audit procedures are involved, the details should be set out in the 'scope' paragraph of the report. Where accounting principles are involved, the details can be set out in a separate paragraph between the 'scope' and the 'opinion' paragraphs, or, if they can be explained briefly, inserted in the 'opinion' paragraph. Proper presentation of a qualified opinion also requires that the 'opinion' paragraph be so worded that it clearly conveys the auditor's intention to qualify his opinion.

The Committee also outlined the circumstances in which an opinion should not be given, and the procedure to be followed where additional information and explanations are required to be reported by the auditor.

FRANCE

Budget Plan to Reduce Income Tax

ON Thursday of last week, M Wilfred Baumgartner, French Minister of Finance, and M Giscard d'Estaing, Secretary of State for Finance, gave details to the Press of the French Budget for 1961, which had been agreed by the Council of Ministers the previous night. The Minister described the Budget as designed to fit into the pattern of stable growth which is the policy of the Government, and from this it follows that this Budget has much the same proportions as the last one. Revenue is estimated at 63,500 million new francs (over £4,500 million) and expenditure at 70,400 million new francs (over £5,000 million), each of these figures showing an increase of about 3,500 million new francs (£250 million) over the equivalent figures for 1960, and leaving the overall deficit almost unaltered at 6,900 million new francs (£500 million); this showed, as the Minister explained, the continuity of Government policy, which combines expansion with monetary stability. Expenditure represents 24.3 per cent of the gross national product, an increase of only .02 per cent on 1960 and roughly the average for western Europe.

The biggest increase in State spending will be on foreign aid (185 per cent). Expenditure on roads shows an increase of 180 per cent, but only 500 million new

francs (£36 million) will be spent on motorways. Expenditure on hospitals and medical research is to be increased by 160 per cent. The merchant marine and the Sahara show decreases in expenditure. The rise in personal income, in so far as it is due to the rise in prices, will bring in an additional 200 million to 250 million new francs in income tax, but personal income tax is to be decreased in three stages. First, half the 10 per cent increase imposed in 1956 will be removed in 1961; secondly, the other half will go in 1962 and there will be a reduced scale for the lowest surtax payers; and, thirdly, the rest of the surtax rates will be reduced in 1963.

INDIA

Cost Accounting Team's Tour

A TEAM of Indian cost accountants lead by Mr A.M. K. Rustomji, B.A.(HONS.), F.C.A., A.C.A. (India), A.C.W.A., F.I.C.W.A., A.C.I.S., controller of accounts, Tata Locomotive & Engineering Co Ltd, Jamshedpur, is to arrive shortly in the United Kingdom as part of a tour of industrially advanced countries to study the latest practices and techniques of cost accounting and financial control, including standard costing, budgetary control, mechanized accounting, reporting to management and internal audit.

The tour is being arranged by the National Productivity Council of India, with the assistance of the Technical Co-operation Mission, and the team will also visit the United States of America and West Germany.

On Monday, September 26th, the team will be received by the President of The Institute of Cost and Works Accountants, Mr W. S. Risk, B.COM., C.A., F.C.W.A., at the headquarters of the Institute in Portland Place, London, W1, and will spend the day discussing points of interest with senior members of the Institute. The team will also visit a number of leading industrial organizations.

BELGIUM

Accounting Award

A RESEARCH centre operated by Belgian stock-brokers makes an annual award for company accounts published in Belgium. The third award has recently been presented to the Société Esperance-Longdoz. At the presentation ceremony the President of the centre, M Henri Reners, criticized the practice of auto-financing, whereby a company sets aside a substantial portion of its profits for expansion. In his opinion, profits should only be carried to reserve to the extent dictated by prudence, and not for investment in additional capacity or working capital; this amounts to an increase of capital in a manner which avoids the conditions laid down by law. Further, the effect of such transfers is frequently to depress the price of the company's shares, since the dividend yield conceals the profitability of the company.

The President of the Belgian Centre of Public Relations pointed out that the new German company

*They're produced in Britain—***AT LOWER COST**

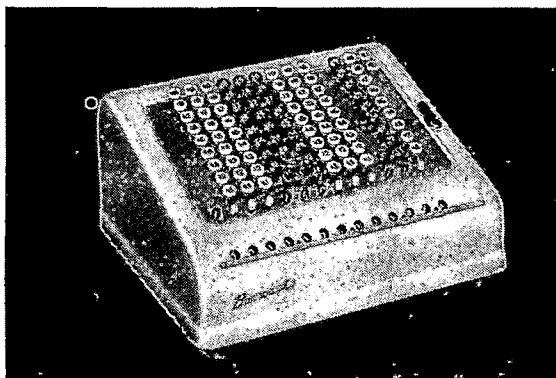
BURROUGHS CALCULATOR SALES DOUBLE IN 12 MONTHS

Sales of Burroughs calculators over the last twelve months have leapt to more than twice last year's figure! This is because Burroughs now give even better value for money, with the big reductions made last year in calculator prices.

These reductions were made possible by improved production methods in Burroughs ultra-modern factories in Scotland. Burroughs have built machines for British business since 1898, and all calculators are made in Britain.

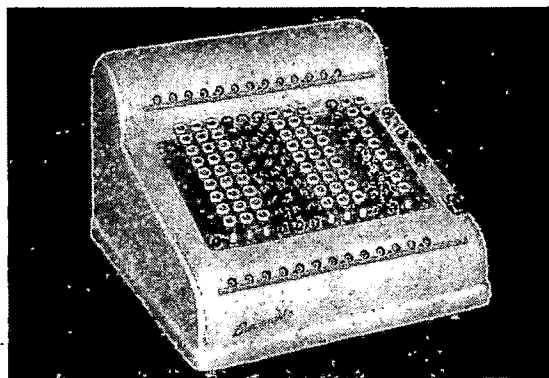
Standard Electric Calculator now only £165 (Style C 205½)

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law, which calls for disclosure similar to the requirements of the Securities Exchange Commission in the U.S.A., will have a considerable effect in the near future. As there will be severe competition between German, Dutch and French companies for the capital available in the Common Market, the amount of information available to shareholders and other sources of finance may play a decisive role.

In Belgium, the Conseil National de Travail has passed a resolution, soon to become law, calling for extremely detailed information to be given to young employees who join a company. If this information on the operations, organization and economic function of the company is to be given to employees under the age of 21, it is hard to see what justification there will be for withholding it from shareholders.

The Belgian award jury also saw fit to comment on the standards it applied in making its choice. It states that company reports must be both clear and complete in all respects; the 'negative criteria' which the jury applied, included: the absence of a clear differentiation between permanent and temporary investments in stocks and shares; advances to suppliers and others grouped together with realizable debts under the heading 'sundry debtors'; failure to analyse stocks into raw materials, supplies, work in progress and finished goods; insufficient analysis of the often substantial liability to 'creditors'; and the 'laconic and even hermetic type of profit and loss account'.

AUSTRALIA

Guide to Investment

INFORMATION on economic and investment conditions in Australia has recently been published with the authority of the Commonwealth Government. Entitled *Australia - an Economic and Investment Reference*, the survey includes general reviews on company structures, tariffs, taxation and aid to industry granted by the States.

The main purpose of the guide will be fulfilled says Mr Robert Menzies, the Commonwealth Prime Minister, in a foreword, if it encourages investors and industrialists from abroad to visit Australia to form their own first-hand views.

RHODESIAN FEDERATION

Aid for Industry

FACILITIES for obtaining finance for industrial development in the Rhodesias and Nyasaland have been made available through the formation of a corporation which, though privately financed, has the blessing of the Federal Government and industrial circles generally. Designed to fill the gap which, in other countries, is played by Government-sponsored development corporations, the Industrial Promotion Corporation of Rhodesia and Nyasaland Ltd (IPCORN) has been founded with an authorized

capital of £1 million and opened for business on February 1st, 1960. The Bank of Rhodesia and Nyasaland is among the leading sponsors.

The object of IPCORN is stated to be the stimulation of industrial growth throughout the Federation; to help private initiative and enterprise in the establishment of new industries and the expansion and improvement of existing ones, by making available to home and overseas investors, financial, technical and other assistance, including advice on costing and accounting as well as other aspects of production and marketing.

Copies of a booklet giving general information as to the purpose and scope of IPCORN are obtainable from the general manager of the corporation, P.O. Box 134, Salisbury, Southern Rhodesia.

SWEDEN

Tax Outline in English

NOW available free from its sponsor, the Stockholm Enskilda Bank, Stockholm, 16, is a booklet entitled *Corporate Income Tax in Sweden*.

This joint work by a Swedish and an American specialist is a brief survey for the guidance of foreigners contemplating 'ordinary business operations' in Sweden or with Sweden. Special tax laws for shipping, insurance and banking undertakings are not dealt with.

It starts with the rules for permanent business establishments in Sweden and progresses to the taxation of income from various Swedish sources received by foreign corporations and non-resident executives who perform services in Sweden. It covers allowable deductions and the determination of corporate income for both national and local tax from one return; the collection of both taxes by P.A.Y.E.; loss relief; the reassessment of dividends and liquidation payments; income spreading and averaging; and the taxing of capital gains. The position of holding companies, subsidiaries, branches and agents in Sweden is discussed, and there are notes on the taxes other than income taxes.

Sweden has been a pioneer in many tax matters: in double taxation avoidance treaties, by the wide network, frequent revision, and uniformity achieved by using model clauses of O.E.E.C.; in legislative procedure, by submitting tax Bills for comment to interested organizations before passage through Parliament; by advance rulings on the tax consequences of proposed transactions offered to resident or non-resident by the National Tax Board, which would bind the Government; and by the unmatched tax devices used in valuing stock-in-trade, depreciating assets, and allocating profits, tax free to investment reserves for economic stabilization. These may serve as a fertile source of ideas, even for those not directly concerned with Sweden - for the business man, tax practitioner, Revenue official, or economist 'seeking ways to use taxation to strengthen corporate liquidity and offset business cycle fluctuations'.

Weekly Notes

Chartered Surveyors' Views on Company Law

THE Royal Institution of Chartered Surveyors, in submitting a memorandum of observations to the Jenkins Committee, has selected one subject only, namely, the adequacy of the protection afforded to investors by the existing law. In this connection the Institution specifies the valuation of property assets as being unsatisfactory as carried out at present. Such a valuation is normally contained in a prospectus, and is in fact often carried out by a chartered surveyor, but no specific information is at present required to be supplied in the case of property assets. The Institution believes that in all cases concerning property valuations, certain specified information should be supplied to the Council of the Stock Exchange by a company which seeks permission to have shares quoted, and lists the information which it considers should be given.

In recent years there has been an increasing tendency for assets to be valued as intended to be improved at some subsequent date, e.g., sites have been valued as if a building, either not started or not finished, was erected and fully occupied. If information had to be given on the basis suggested by the Institution, the basis upon which the valuation had been made would in all cases be revealed. The valuer, though chosen by the promoters of the company, should, from the point of view of the public, be completely independent of the company. He would sign a certificate – a suggested form of which is appended to the recommendations – containing a synopsis of the required information, and this would be included in the prospectus.

A Year of Interfirm Comparisons

THE Centre for Interfirm Comparison Ltd (which was set up by the British Institute of Management in association with the British Productivity Council) has issued a progress report on its first year of operation. The new organization has made steady progress in obtaining the co-operation of industries, especially trade associations, in establishing interfirm comparison techniques. One common by-product of I.F.C. is the spread of improved accounting and costing methods in companies in the industry concerned, according to the progress report. So far, some fifteen industries are working in co-operation with the Centre. Work also continues in developing interfirm comparisons between companies in this country and those in Europe, a vital development since the European Common Market and the European Free Trade Association came into existence.

The essence of interfirm comparison is the sub-

mission of standard information by companies in an industry, confidentially, to an organization which pools the information, analyses it and offers contributory concerns a comparison between their own performance and the average in the pool. In the first year's operations the most striking points according to the I.F.C. which has emerged are the wide range of results between firms in the same industry, the fact that no one concern is best at everything, importance of efficient firms continuing to participate, the small cost of increasing efficiency, opportunities for the smaller concern to participate, scope for increasing efficiency with special reference to export markets and the availability of schemes within the Common Market for British firms. The Centre has also found it best to encourage the provision of data for calculating ratios which can be used by boards and senior executives, gradually developing other comparisons for use by subordinate managements.

Classes or Correspondence Courses ?

FOR the student striving to obtain a professional qualification which necessitates regular attendance at an office while doing so, the relationship between his academic studies and his practical training commitments is sometimes difficult to adjust satisfactorily. In the case of accountancy, the practise in England is for the clerk to acquire his theoretical knowledge mainly by means of correspondence courses. This certainly has the merit of flexibility and enables the clerk to fit in his private study with his office assignments. In Scotland, where distances are not so great and out-of-town work is not so prominent a feature of office routine, The Institute of Chartered Accountants of Scotland conducts evening tutorial classes which, supplemented by private study, form the main basis of the students' preparation for examinations.

In the course of a lecture on 'Education for the professions' to The Royal Institution of Chartered Surveyors at its annual conference at Bangor last week, Mr A. A. Part, C.B., M.B.E., deputy-secretary at the Ministry of Education, speaking in his private capacity, questioned if correspondence courses were 'any longer a satisfactory method for a candidate for the professional status of the future'. This view supports the opinion expressed in the Crowther report of last year that the nature of the correspondence course system 'prevents students getting from their study what they would if there were opportunities for the free and spontaneous interplay of mind upon mind'.

An inquiry conducted by a special correspondent of *The Times* when reporting Mr Part's lecture, discloses that at present 90 per cent of clerks taking the examinations of The Institute of Chartered Accountants in England and Wales rely almost entirely on tuition by correspondence and that 80 per cent of the candidates for last year's Final examination of The Association of Certified and Corporate Accountants

used similar facilities as do, on the average, one-half of the examinees of the Chartered Institute of Secretaries and the Chartered Insurance Institute.

This is, of course, a topic upon which there are widely differing views. Not unnaturally 'institutional' opinion in the educational field is generally adverse to postal tuition. It is relevant to observe, however, that as formidable a case can be made out for the 'pros' as for the 'cons'.

Report of the Public Trustee

IN the fifty-second annual report of the Office of the Public Trustee¹ for the twelve months ended March 31st, 1960, a surplus is disclosed of £48,210 compared with an adjusted surplus of £10,141 for the previous year. Expenses amounted to £614,110, an increase of £42,019 for the preceding year; receipts however, decreased by £12,332 to £565,900.

During the year, 395 new cases of a total value of £5,402,256 were accepted, being seven more in number and £274,406 more in value than those accepted during 1958-59. The average value of trusteeships amounted to £16,267 as against £11,894 and of executorships £11,231 compared with £12,449. The percentage of cases under £5,000 in value fell from 62 per cent to 59.1 per cent. There was an accompanying decline in the average acceptance fee from £97 to £78. The number of cases completely distributed during the year was 839 compared with 773 in 1958-59 with an average value of £12,346 compared with £12,796. The total value of trusts under administration at the year-end amounted to just over £224 million.

Improvements in National Accounting

A NEW method of estimating changes in manufacturers' stocks now being used by the Board of Trade and the Central Statistical Office is described in the August issue of the Treasury's publication, *Economic Trends*. Stressing the importance of reliable stock estimates in the national accounts, the article states: •

'The extent and pace at which stocks, including work in progress, are built up or run down have important effects on the economic situation, and figures of changes in the levels of stocks held are consequently amongst the most significant of economic indicators. The calculation of estimates of the changes in stocks, from the basic information available, in a form in which they are useful and meaningful for following current economic trends, and building up the national accounts, presents some interesting and difficult problems.'

The improvements in the method of estimating stock changes relate both to manufacturers' stocks and those held by wholesalers and retailers. The value of stocks held in the economy as a whole are worth about £9,000 million, with manufacturers' stocks accounting for more than half this sum. Wholesale

and retail stocks make up a further £2,000 million.

Of particular interest to accountants, is the evidence of consultation on the part of national income experts with the accountancy profession in a matter in which professional advice can be most valuable. The use of the 'first-in-first-out' (FIFO) convention, methods of arriving at a valuation of work in progress, and of using indicators of price changes for adjusting the value of work in progress to a constant price basis, have all been the subject of discussion between Ministry officials and independent accounting advisers. The revised estimates, it is stated in conclusion, are more soundly based and should be more reliable than the previous estimates although it is, of course, impossible to assess the extent of the improvement.

Consumption of Petroleum Products

FIGURES published at the end of last month show a marked rise in United Kingdom consumption of petroleum products and particularly of fuel oil in the first six months of this year, but even if a similar expansion occurs in other countries it is not likely to make much impression on the world-wide surplus of crude oil for some time. The review of 1959 by the Iraq Petroleum group of companies, also issued recently, put this surplus at 250 million tons a year, as a result of which about 20 per cent of production capacity is now idle. Moreover, production capacity in several countries including the U.S.S.R. continues to increase.

The United Kingdom consumption figures published by the Petroleum Information Bureau show a rise in overall consumption of 18.7 per cent from 17.9 million tons in the first six months of 1959, to 21.2 million tons in the first half of 1960. In the case of fuel oil, consumption rose by 29 per cent from 6.9 million tons to 8.9 million tons. Over a third of the latter figure represented consumption for electrical generation which rose by over 35 per cent. This was due to a combination of some substitution of oil for coal, though home consumption of coal has also been rising slightly, and the marked increase in industrial activity as a whole. Although representing only a small fraction of total consumption, chemical feedstock and products supplied to the gas industry showed the largest increase of all categories, namely 62.9 per cent.

Tin Control Relaxed

OWING to delay in the publication of statistics of tin production and consumption, the background of the recent decision by the International Tin Council to abolish export control during the last quarter of this year is not entirely clear. In view, however, of the high level of industrial activity in the United Kingdom and throughout the continent, it may be assumed that the demand for tin continues to be well maintained.

The chairman of the Council, when making the announcement, said that production in at least one

¹ H.M.S.O. 6d net.

member country of the agreement has been declining and that in some countries producers' stocks were falling very low. It is believed that exports from Bolivia are still falling below the quota, and it has been suggested that production in Indonesia may be declining as a result of the expulsion of Chinese workers. Although the Congo is only a small producer, the uncertainty of the future there may also have been a factor.

After a steady rise through June and the early part of July, the price of tin fell quite sharply until

the third week in August. Although it then began to rise again, the decision of the Council to suspend quotas appears to have surprised the market, though it had been expected that if the trends of production and consumption which prevailed in the early part of this year continued, stocks would have fallen to a low level by the end of the year. The removal of the quotas should give those producers who are not affected by production difficulties an opportunity to make good any decline in output which may have occurred elsewhere.

This is My Life . . .

by An Industrious Accountant

CHAPTER 41

OUR local accountants' society has the usual committee in charge of affairs, elected annually, and I felt flattered and gratified to be voted into one of the vacancies last week. Our company auditor is chairman this year; he welcomed me with his usual dry humour and remarked that all this new blood might be expected to have devastating effects on the year's programme of activities. Then we settled down to plan the said programme.

At first, it followed the normal course. There was an undercurrent of rivalry between a red-faced accountant and the chairman on the proportion of functions to be selected for the industrial members and for the practising members, with the routine jibes: 'Who on earth is interested in executorial law nowadays; limited companies don't die off, you know,' from Redface; and our chairman's barbed reply: 'You men who've left the profession can't be expected to appreciate the position.' A newly-qualified member, a black-haired saturnine Cardiff man, pleaded eloquently for a talk on the subject of take-over bids, and someone knew somebody who had a paper available on 'The contribution of the modern accountant to industry'. The chairman asked was it the same as the talk we had last year on 'The role of the accountant in modern economic life', and someone looked rather hurt.

However, Redface had a cousin who's an M.P. and who had been hailed by one section of the Press as a Man of the Year; he claimed a lecture by this hero as our opening function. The Cardiff man said in tones of sepulchral despair: 'No talk on take-over bids, is it?' The chairman looked rather upset; he always favours the younger elements' requests, and after some murmuring he agreed on a take-over talk for our opening night. He silenced the indignant Redface by announcing blandly that his M.P. could be promoted to Man of Next Year.

I felt a little disappointed when the seven lectures were finally approved. The weakness of our profession is its lack of opportunity for getting together socially; at those routine lectures we assemble at eight o'clock, hear a talk and some questions and answers and then disperse unsociably. A few foregather in the bar afterwards, but the majority of our members only exchange nods coming and going, and the juniors rarely meet the senior members. Even at our annual dinner the speeches, though excellent in quality (or mostly so), obviate any opportunity of talking with all and sundry. The other professions seem to have social functions and establish a unity of purpose and outlook, but whoever speaks of 'the viewpoint of the accountancy profession'? We are hardly a unified body in this sense; not in our district, anyway, we are a number of individuals. . . .

I tried rather clumsily to explain this feeling, but it had a poor reception. The chairman asked rather coldly just what did I want, anyhow? Was I not proud of our individual personalities? Did I want a lot of yes-men? So I was stung into saying I was tired of listening to speeches; I wanted more gaiety; what about a dinner-dance or a garden party, for example?

The committee looked as appalled as if I had suggested a white-slave project. 'What on earth do you want to go dancing for?' said the chairman in genuine amazement. 'Can't you leave that to the youngsters?' And Redface, still smarting under his recent rebuff, came in crushingly with the remark that he saw quite enough accountants during working hours; he didn't see why he should meet them after work as well. Fortunately, however, this regrettable *faux pas* went against the grain of the meeting. There was a general mutter of dissent, and the Cardiff man leaned across and said to me in a sibilant stage-whisper: 'My grandfather threw Dai Morgan down the main shaft for less than that.'

In the ensuing laughter, there arose a measure of support for the idea; the chairman diplomatically suggested forming a subcommittee to study the pros and cons; and Redface made honourable amends by saying he'd bring his cousin down to join the revels.

I would like to gather some data on the number of successful accountants' dances held in the last few years; I wonder if our branch committees would let me know?

Finance and Commerce

Turnover

IT will be interesting to see what line the Jenkins Committee on Company Law Amendment takes on the publication of turnover figures. On the whole, the weight of current opinion seems to be in favour of publication, and the fact that many companies now give this information shows that the 'impossible' can now be done. The present standard of company accounting has indeed been reached as much by practical example as by force of law.

One of the most important companies to take this lead is Unilever, whose interim announcement of turnover and results for the first half of 1960 is reproduced this week. Maybe on the score of giving information to competitors by publishing turnover the big holding companies have little to fear. Their interests cover such a wide range of products that it is impossible to connect turnover in the aggregate to any particular line.

One of the features of the Unilever figures is the size of the total turnover in relation to the total sales to third parties, but this, of course, is not surprising in a group that controls production from the source of raw materials right to the point of final distribution to the consuming public.

Full of Meaning

With turnover figures included, the Unilever half-year report becomes full of meaning. Sales to third parties for the first half of 1960 at £682 million gained some 6 per cent on the first half of 1959. But the combined profit at £55.8 million shows a

rise of only about 4 per cent. Looking further, it is obviously the Dutch partner, Unilever N.V., that has met the greater difficulties. 'Dutch' profits are down from £29.2 million to £25.2 million while the 'Limited' profits are up from £24.6 million to £30.6 million. And it is the Dutch partner which is primarily responsible for Unilever interests in America and on the Continent of Europe, where competition is known to have been most severe.

The effect of the figures on the market for the shares was uncertainty. For the first time since the 1957 recession, the Unilever half-year figures show a decline in the percentage of gross profit to sales, the present figure being 8.2 per cent following 8.8 per cent in the second half of 1959, and 8.4, 7.7 and 7 per cent for the previous half-years looking backward.

How it comes that the figures relate to two companies, Unilever Ltd and the Dutch company, Unilever N.V., has been previously explained in this column. Briefly stated, it amounts to a business partnership very much on the lines of that existing between the Shell and the Royal Dutch oil companies.

Paint Merger

THE accounts of Lewis Berger & Sons Ltd, the company that makes the 'Magicote' and 'Berger-master' paints, from which this week's reprint has been taken, will probably be the last from this 200-year-old business in its present form. The beginnings are briefly described in this year's bi-centenary publication.

In 1760, 'into England, from troubled Europe, came the first Lewis Berger, a man skilled in the continental craft of making and mixing fine colours. At a small cottage at Homerton, near London, he began to build a new life in an adopted country. From this humble and obscure beginning was to rise an industry which would spread over England, over the Old World, the New World and over a virtually-unknown world in the Southern Hemisphere'.

UNILEVER LIMITED AND UNILEVER N.V.

INTERIM ANNOUNCEMENT OF TURNOVER AND RESULTS 1960—FIRST HALF-YEAR

The Boards of Unilever Limited and Unilever N.V. announce the Companies' estimated combined turnover and consolidated results for the first half of the current financial year. The corresponding figures for the first and second half-years of 1959 are given for comparison.

(ALL FIGURES REPRESENT £ MILLIONS)

1960 First Half-year
£908
£682

TURNOVER
of which sales to third parties

1959 First Half-year
£861
£642

1959 Second Half-year
£926
£687

1960 First half-year		
COMBINED	LIMITED	N.V.
55.8	30.6	25.2
27.8	14.5	13.3
28.0	16.1	11.9
1.6	.5	1.1
1.2	.5	.7
28.4	16.1	12.3

RESULTS		
Profit before taxation		
Taxation on profit		
Profit after taxation		
Exceptional items		
Minority interests		
CONSOLIDATED NET PROFIT		

1959 First half-year		
COMBINED	LIMITED	N.V.
53.8	24.6	29.2
26.4	11.6	14.8
27.4	13.0	14.4
3.5	3.5	—
1.1	.5	.6
29.8	16.0	13.8

1959 Second half-year		
COMBINED	LIMITED	N.V.
60.4	31.3	29.1
29.4	14.9	14.5
31.0	16.4	14.6
.5	1.5	1.0
1.2	.5	.7
30.3	17.4	12.9

10th August, 1960.

LEWIS BERGER & SONS LIMITED AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 1960		CONSOLIDATED PROFIT AND LOSS ACCOUNT (Continued)	
	1959 £		1959 £
TRADING PROFIT before incorporating items below	743,076	UNDISTRIBUTED PROFITS BROUGHT FORWARD	718,252
INCOME FROM SHARES IN ASSOCIATED COMPANIES (gross)	114,252	at 1st April, 1959	36,540
Less—Provisions for Depreciation	857,328	Less—Amount capitalised by Subsidiary Loss on devaluation of French Franc	13,011
PROFIT BEFORE TAXATION	675,427	Add—Profit available for Lewis Berger & Sons Limited	681,712
Less—Taxation thereon (see note)	214,000		358,069
GROUP PROFIT FOR THE YEAR	£461,427	NET DIVIDENDS PAID AND PROPOSED BY HOLDING COMPANY—	1,039,781
		Preference Stock	17,150
		Ordinary Stock	171,500
		Transfers to Reserves of Subsidiaries	188,650
			11,556
		UNDISTRIBUTED PROFITS CARRIED FORWARD	200,206
		Holding Company	310,553
		Subsidiary Companies	529,022
			£839,575
			£718,252

ALLOCATION OF PROFIT		NOTES	
	1959 £		1959 £
DEBENTURE INTEREST (net)	62,781	TAXATION—	1960 £
DEBENTURE AND LOAN STOCK INTEREST—SUBSIDIARY COMPANY	2,432	Profits Tax (before deduction of relief for Double Taxation)	18,000
PROFIT AVAILABLE FOR MINORITY SHAREHOLDERS IN SUBSIDIARIES	38,145	Income Tax (before deduction of relief for Double Taxation)	17,000
BALANCE OF PROFIT AVAILABLE FOR LEWIS BERGER & SONS LIMITED (of which £95,932 has been dealt with in the Accounts of the Holding Company)	358,069	Domination and Foreign Taxes (less relief for Double Taxation)	103,000
	£461,427		93,000
			37,000
			£214,000

HOLDING COMPANY DIRECTORS' EMOLUMENTS AND PENSIONS ETC.		HOLDING COMPANY DIRECTORS' EMOLUMENTS AND PENSIONS ETC.	
	1959 £		1960 £
Fees	5,746	Other Emoluments including Pension Schemes Contributions	32,820
Pensions paid to former whole-time service Directors	1,900		
	£40,466		

From September 12th, if the merger goes through, the company will be Berger, Jenson & Nicholson Ltd, following a merger with Jenson & Nicholson, famous for its Robbialac paints and enamels. The terms are nineteen Berger 4s ordinary for every eight Jenson 5s ordinary and eleven 7 per cent Berger preference for every ten Jenson 7 per cent preference. There is a point of interest in the rate of preference exchange which, in its premium on the Berger shares, acknowledges the fact that Berger preference holders are asked to exchange from a 'closed' issue into a preference of which more can be issued.

Revolution

While the Berger-Jenson merger accords with the modern trend, there has been a revolution in the paint industry which has changed its whole outlook. Paint is no longer a mixture of oil and colours. It is now a complex synthetic chemical substance. One of the Berger group interests is Styrene Co-Polymers Ltd, a pioneer in the synthetic resins.

As a chemical, paint was a natural line of development for Imperial Chemical Industries, which came into the retail field in 1952 and dominated the market. The reaction in the rest of the industry was to close up into larger units or to join powerful groups.

One of these was the take-over of Pinchin Johnson by Courtaulds, whose name has been fundamentally associated with silk - natural and artificial - but which more recently has gone diversifying and had already entered the paint business through an acquisition of Cellon, a name made famous in the First World War for its 'dope' for the linen wings of aeroplanes.

It will be noted in these Berger accounts that taxation bears a less-than-normal proportion to profits. The £214,000 is 'relatively low' says the chairman. The reason is that tax allowances not absorbed in past years, when profits were insufficient, have reduced the charge this year when earnings have been increased.

Comparisons

READERS of this generation will hardly believe what an effort it was in the 1930s to get public companies to put comparative figures into their accounts. Introduction of a comparison was an event worthy of mention in this column. Yet it is only by comparison that current figures yield their full meaning.

What is worth recording now is the effort made to preserve a level comparison when, owing to acquisitions, the accounts of one year are not level with the previous.

Aspro-Nicholas Ltd, for instance, bought, during its year to March 31st, 1960, Askit Ltd, and Griffiths Hughes Proprietaries Ltd, the latter representing 'the largest single move in our diversification'. Total consolidated net assets are consequently up from £2,902,738 to £6,436,872 with a tremendous intangible ingredient in the shape of 'Trade-marks and goodwill', including premiums on shares in subsidiary companies, at cost less amounts written off of £4,297,173 (against £1). Intangible assets are, of course, a feature in the accounts of 'medicine' companies.

To bring the profit comparison on level terms, a separate page in the report gives 'The profit picture had Griffiths and Askit been group members for a whole year', the profits of Aspro, Griffiths and Askit being separately stated with their comparisons and then brought together for final treatment.

A word may be added on Derbyshire Stone Ltd, whose latest accounts are the first to be issued since the company bought the Baird & Tatlock group during the year to March 31st, last.

In the consolidated profit and loss account, space has been made for a third column showing profits including the Baird & Tatlock figures for the year to April 30th, 1959.

These instances are worth recording as examples of the extent to which shareholders are now provided with information necessary for a 'true and fair view'. But it was not always so, and it is sometimes easy to take present company reporting standards for granted with scant regard to the broad improvements made in comparatively recent years. The good example of the few becomes the accepted practice of the many – and accepted practice becomes law. That is how things go.

CITY NOTES

'HOT money' is one of the discussion points in the City. The further improvement in the gold and currency reserves and the decision to make a forward payment of four months' instalments on the International Monetary Fund loan has provided comment on the current policy of maintaining a Bank rate which continues to attract international funds to London and of making use of those funds while the going is good.

In some quarters, Treasury policy is adversely criticized while in others the view is taken that present policy fills in a gap left by the temporary rephrasing of exports. Arguments on the 'dangers' inherent in the present interest rate position and in the wide adverse trade gap certainly have little effect on the stock-markets. There 'hot money' is at work as well. The supply of investment money seems inexhaustible. The markets remain arrogantly confident and, while profit taking by in-and-out speculators temporarily checks the advance, slightly lower prices only serve to attract renewed support.

In the context of the abundance of investment funds, the Lombard Banking group's decision to reduce deposit interest rates from 6 per cent to 5 per cent is a pertinent development. The company's 6 per cent rate was presumably attracting funds to an embarrassing extent.

There has also lately been the oversubscription of the £12 million Surrey County Council loan – the first fixed-interest offer to command success for some considerable time. What is more the stock opened at a premium in the market.

RATES AND PRICES

Closing prices, Wednesday, September 7th, 1960

Tax Reserve Certificates: interest rates (29.6.60) 3½%

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

July 1	£5 13s	6.14d%	Aug. 5	£5 11s	7.17d%
July 8	£5 13s	3.06d%	Aug. 12	£5 11s	5.85d%
July 15	£5 10s	2.49d%	Aug. 19	£5 11s	8.78d%
July 22	£5 9s	9.27d%	Aug. 26	£5 11s	9.05d%
July 29	£5 10s	10.96d%	Sept. 2	£5 11s	9.33d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	5-5½%	2 months	5 32-5 35%
Fine Trade Bills		3 months	5 32-5 35%
3 months	6½-7%	4 months	5 32-5 35%
4 months	6½-7%	6 months	5 32-5 35%
6 months	6½-7½%		

Foreign Exchanges

New York	2.81½-½	Frankfurt	11.72½-½
Montreal	2.72½-½	Milan	17.44½-½
Amsterdam	10.60-½	Oslo	20.03½-½
Brussels	140.48½-49½	Paris	13.77½-½
Copenhagen	19.35½-½	Zürich	12.11½-½

Gilt-edged

Consols 2½%	45½	Funding 4% 60-90	87½
Consols 4%	66½	Savings 2½% 64-67	82½
War Loan 3½%	60½	Savings 3% 55-65	88½
Conversion 3½%	58½xd	Savings 3% 60-70	78½
Conversion 3½% 1969	83½	Savings 3% 65-75	71½
Exchequer 5½% 1966	97½	Treasury 2½%	43xd
Funding 3% 66-68	81½	Treasury 3½% 77-80	72½
Funding 3% 59-69	81½	Treasury 3½% 79-81	71½
Funding 3½% 99-04	64½	Victory 4%	92½

1896



1960

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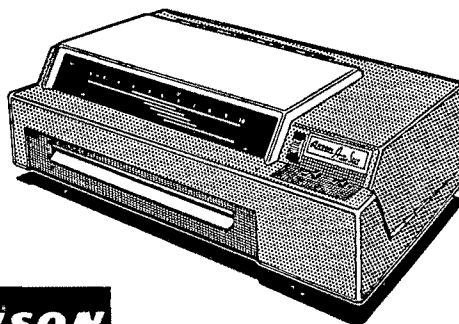
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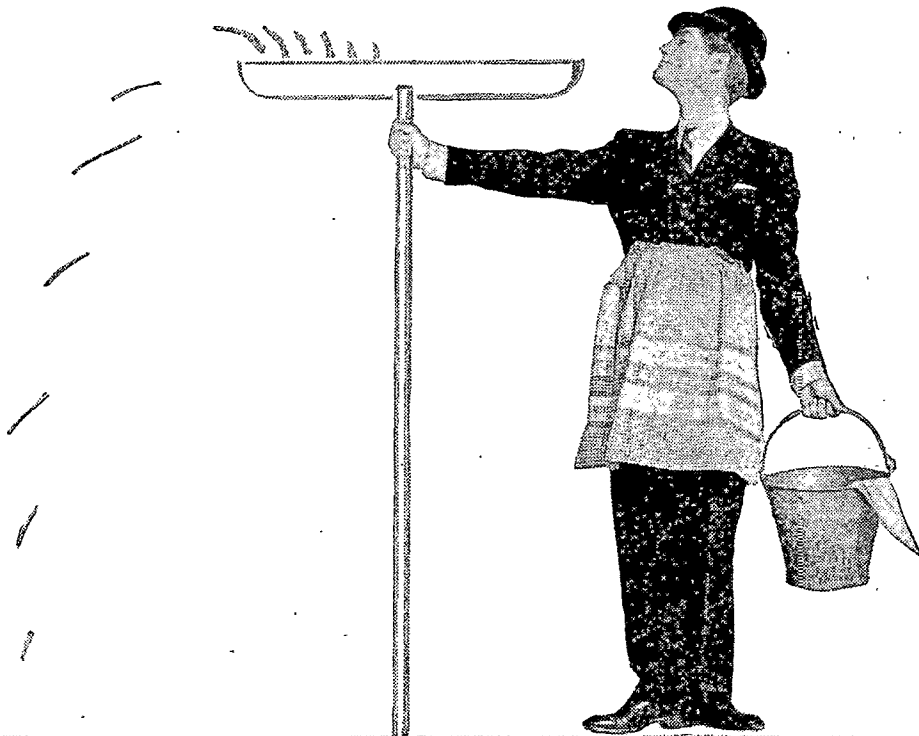
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Reviews

Management Survey

Pelican Edition, by Sir FREDERIC HOOPER. (Penguin Books, Harmondsworth. 3s 6d.)

In preparing this book for the new edition, Sir Frederic Hooper has found

'no reason to withdraw or appreciably alter any of the beliefs I then held in the light of either subsequent writings on management by others, or my own experience since 1948'.

Those who now read the book again will confirm this view and thereby pay tribute to the wisdom and foresight of Sir Frederic. In fact, the few footnotes which have been added modifying the original views provide a most interesting commentary on developments in the industrial scene in the last twelve years.

No one should be deterred from reading this book on the grounds that it was written a dozen years ago, any more than they should be deterred by the fact that it contains pages of solid writing and admirable English. Actually Sir Frederic appears as a doughty champion of orthodox writing, as opposed to the scrappy, tabulated pages which so many authors seem to think is all that busy men will bother to glance at. In this book the style is so easy and the logic so marked that it is more difficult to put down than many novels. Wisdom and experience shine out from it and it has a special quality for stimulating further thought.

This seems to be one of the best books available for breaking the ice between business and the outside world and it ought to be almost compulsory reading for young people trying to choose a career. It is equally valuable as a refresher course in management for those who have a moment in which to sit back and think where their business is going – and this includes accountants in public practice.

The Principles of Company Law

by ROBERT R. PENNINGTON, LL.B. (Butterworth & Co (Publishers) Ltd, London. 50s net. Postage 2s extra.)

Mr Pennington holds the appointment of Reader at the Law Society's School of Law, and this book was, as he tells us in his preface, written primarily for students preparing for the Solicitors' Final examination, though the author expresses the hope that it may prove useful to, amongst others, students reading for accountancy qualifications, as well as to practitioners who require a background against which to set the problems brought to them by their clients. The background of the law relating to companies is something on which the author wisely lays emphasis, recognizing that an understanding of this branch of the law is the more easily to be achieved if the

reasons for the numerous and often complicated statutory provisions are made plain.

A discursive style is probably of more help to the average student of the subject than a detailed analysis of the sections of the Companies Act, 1948, and there is a great deal to be said for the author's fairly full treatment of some of the leading cases. A user of this book should, however, have beside him the statute itself, and also the Companies (Winding-up) Rules, 1949, neither of which does the book include, doubtless on grounds of space; for, no matter how valuable a commentary may be, reference to the precise wording of the statutory provisions is generally essential for a proper understanding of the subject. Moreover, there are some sections of the Act – admittedly they are some of the less important ones – to which the author does not refer at all. While they may not call for comment, their complete omission does render the work a little incomplete. A very useful feature of the book of which mention should be made is the final chapter, dealing with unit trusts.

Standard Costing

by J. BATTY, M.COM.(DUNELM), A.C.W.A., M.O.M.A. (Macdonald & Evans Ltd, London. 25s net.)

The 'moment of truth' for any teacher comes when he meets his students face to face. Without that experience one may fail to realize how little or how misleading is the impact of the written word on the unskilled mind, or how desperately frustrating one small unexplained ambiguity can be. Mr Batty is a lecturer of long experience and his book on standard costing shows the detailed care and precision which are necessary to intelligible instruction, happily combined with such a sound understanding of business practice giving life and significance to the routines he describes.

In refusing to turn aside into the tempting fields of general costing or factory administration, except so far as is necessary for the elucidation of his theme, the author has been able to cover every aspect of his subject in great detail, and to give full examples of variance and 'sub-variance' calculation, with illustrations of the related book entries. These are in the form of ledger accounts, and one would sometimes have welcomed a journal entry to link standard cost and a series of variances with the relevant figure of actual cost. The entries are quite clear, however, and the student, by tracing for himself the various interlinked accounts, should establish them the more firmly in his memory. In dealing with 'third entries' the use of a form of journal would have permitted the illustration of the common practice of a third column for such items.

The accountant in industry will find interest in the many suggestions for forms of report to different levels of management; and in the chapters covering the control of selling and distribution, administration and research costs. On this last subject, Mr Batty's balanced and urbane manner is well in evidence.

With regard to selling and distribution costs, the author gives a comprehensive survey of possible variance calculations while leaving open the extent to which these should be incorporated in the costing system. One could wish he had been more dogmatic on this point, at least as regards sales volume variance. Although one can argue a case for recording as the true cost of production a standard direct cost based on controllable factors, there seems little justification for journalizing standard sales which have never occurred. This, however, strikes at the rationale of standard costing, and it is not Mr Batty's purpose to philosophize.

The index omits one or two useful references (e.g. to material price variance on page 175, and to third entries on page 72), but it is ungenerous to look for minor faults in this excellent work which is likely to be a standard textbook for some years to come.

'The Glasgow Herald' Management Notebook

by F. DE P. HANIKA. (*The Glasgow Herald*, 65 Buchanan Street, Glasgow, C1. 15s net.)

The table of contents – and the index – show that this is an unusual and attractive book. Its six main sections are: The task of top management; management organization; people; work – the fundamentals; work – industrial engineering; serving the customer; cost and profits. The sweep is very wide and, inevitably and intentionally, the depth of penetration is not equal. Lord Verulam, chairman of the British Institute of Management, sums it up excellently in his foreword when he describes it as 'a source of ideas and yet a full statement of existing knowledge in many of the fields that it covers'.

The opening chapter on 'Coping with future uncertainty' sets a style, which is maintained throughout, of clear English, short chapters, and a minimum of footnotes. The author's enthusiasm and breadth of knowledge falters a little in places, but the good sections are very good. Towards the end of the first part, quality sinks. But the following sections on 'Management organization' and on 'People' are interspersed with valuable practical guidance on narrower fields of management activity. Chapter 10 on the 'Supervisor – management's vital link' is particularly useful and should help any manager who feels that present-day foremen are not what their fathers were, to learn the reason why and to recognize what he has gained by the change. Similarly, the section on 'People' is most informative and succinctly sets out the many duties which management has to perform for employees from original application to retirement – perhaps because they have become overweight executives!

The two sections on 'Work' are the most valuable parts of the book; here the author is able to show the many avenues which a scientific approach has opened up in front of management. Methods study and motion economy rub shoulders with ergonomics and job evaluation. But in every case Mr Hanika not only explains the meaning of obscure titles but also goes on to show with practical examples what benefits may be expected from the use of the skills they represent.

The last two parts of the book show again the rather uneven treatment that was noticeable earlier on; and Mr Hanika acknowledges that he has not made any attempt to deal fully with cost and profits. Accountants will probably think that it would have been better if he had left this section out altogether, although they will agree with him that the book would have been incomplete without them.

The *Management Notebook* should help accountants close the gap which so often seems to exist between the life in a professional office in which they have been trained, and the world of industry and commerce. Mr Hanika shows clearly how much is involved in modern management and should stimulate accountants to supply, in their contacts with management, the accounting contribution with which this book does not attempt to deal fully.

Financial Administration in Local Government

by Dr A. H. MARSHALL, C.B.E., B.SC.(ECON.), PH.D., F.I.M.T.A., D.P.A. (Allen & Unwin Ltd, London. 32s net.)

This is an important book. It is no mere digest of basic texts but a comprehensive thesis on a wide subject – the science of public financial administration. Consequently, as Dr Marshall says, he has dealt with administration and not finance, accounting or auditing. The organization of an accountancy section is discussed but not the form of accounts; the procedure for making a budget is treated, but not its contents. The compendious character of this book will interest those concerned with similar functions in private industry and other branches of the public service.

The object is an ambitious one and Dr Marshall is well equipped to handle it; his erudition is wide, he has the gift for the bold association of new ideas, and he combines an analytical talent with a homely expression of his conclusions. The result is a fascinating panorama of both principles and wide personal experience drawn from several generations of financial officers, and linked with the particular help and wisdom of some of his professional contemporaries. This is a solid foundation. It gives rise to a dominant theme throughout the book – that any work on financial administration should be of value to financial administrators serving in organizations outside local government as well as within. Dr Marshall has manifestly succeeded in bridging these two similar but separate aspects.

The subject is treated throughout on a high and practical level of abstraction – hence the first three chapters elaborate upon the dominant theme. The next nine chapters are devoted to committee, staff and divisional organization. Outside local government, boards or committees delegate to chief officers many executive functions which are retained by members within local government. Perhaps more attention could have been given by the author to the development in local government of this principle in modern management technique. Interesting chapters follow on the role of the clerk in financial administration (corresponding broadly to the secretarial function elsewhere) and the finance organization in operating departments.

Four chapters of the book are taken to review the principal financial functions – payment of accounts, collection of income, purchasing and contracting. The increasing amount of public expenditure emphasizes the importance of these functions. Four more chapters deal with budgets and internal rules. These last chapters are well placed in order and make a good ending. Six appendices deal with, *inter alia*, statutory financial provisions, an organizational chart, and outline standing orders. The contents of the entire book and a sound index extend to nearly 400 pages.

The Control of Monopoly in the United Kingdom

by PAUL H. GUÉNAULT and J. M. JACKSON. (Longmans, Green & Co Ltd, London. 25s net.)

The development of legislation dealing with monopoly in the United Kingdom has been accelerated since 1945, but it is highly doubtful whether many business men, or the consumers whom it is designed to protect, are fully aware of what has been done. This carefully compiled book traces the evolution of public thinking on monopoly up to the 1948 Act and then seeks to show what has been achieved. This is done by examining over twenty of the industrial reports of the Monopolies Commission and the Parliamentary debates. The authors withhold any final judgment, but are clearly convinced that more will have to be done if monopoly is to be effectively regulated. Students of economics will welcome this book and accountants who want a good background study to the subject will find it helpful and informative.

The Commonwealth and Europe

by *The Economist* Intelligence Unit, 22 Ryder Street, London, SW1. 42s.

Sponsored by the organization known as 'Britain in Europe', this 600-page analysis of Commonwealth trade with Europe, published this week, comes at a particularly opportune moment. A major obstacle to agreement in the original negotiations between Britain and the Common Market was the question of imperial preference. As indicated in our leading article of August 27th and as this book demonstrates,

an arrangement between the Commonwealth and the Common Market is practicable and would, by virtue of the rapid economic expansion in Europe, redound to the Commonwealth countries' advantage. The degree of preference in the British market enjoyed by Commonwealth products is, as the book states, far less important than the need to guarantee an adequate market.

In the course of examining this problem, the study surveys the entire field of Commonwealth economic development and prospects and for this reason alone will prove interesting to those who may wish to enter the export market.

'Taxation' Key to Income Tax and Surtax
Forty-ninth (Budget 1960) edition, edited by PERCY F. HUGHES. (Taxation Publishing Co Ltd, London. 11s net, postage 6d extra.)

This handy manual is a remarkable achievement not only in the speed with which it appears after each Budget and each Finance Act, and the marvels of compression, but also, and perhaps most of all, in the ingenious arrangement of the 'automatic thumb index' which makes it possible to turn up any one of the innumerable topics in a matter of seconds. Needless to say, the changes in rates for housekeeper and dependent relative allowances, as well as the new allowance in lieu of housekeeper allowance and the new provisions about national insurance, are duly dealt with in their appropriate places. Bearing in mind that this is a book of only 223 pages, and that the Income Tax Acts alone cover over 700 pages in the official volume, it is better to omit consideration of the more abstruse anti-avoidance provisions and to concentrate on more mundane matters. Incidentally, this seems to be one of the few books which tell you where to find the Inspector of Foreign Dividends.

RECENT PUBLICATIONS

WILLIAMS ON EXECUTORS AND ADMINISTRATORS, fourteenth edition (two volumes), by George Williams Keeton, M.A., LL.D., Barrister-at-law, assisted by Ernest Harold Scamell, LL.M., Barrister-at-law. ccxliii + 1344. 10 × 6½. £12 12s net (special offer: £10 10s if thirteenth edition is returned with order). Stevens & Sons Ltd, London.

PRACTICAL BOOK-KEEPING AND ACCOUNTS, by A. J. Favell, B.Sc.(ECON.), A.C.I.S. Revised by W. T. Smith, M.COM. Fifth edition. 426 pp. 8½ × 6. 10s 6d net. University Tutorial Press Ltd, Clifton House, Euston Road, London, NW1.

OVERSEAS DIRECTORIES, WHO'S WHO, PRESS GUIDES AND YEAR BOOKS. Twelfth edition, edited by H. R. Vaughan. 8½ × 5½. 6s net. 48 pp. Card covers. Publishing & Distributing Co Ltd, 117 Regent Street, London, W1.

THE LAW LIST, 1960. Edited by Leslie C. E. Turner. xxiv + 2485 pp. 8½ × 5½. 37s 6d net. Stevens & Sons Ltd, London.

COMMON MARKET FISCAL SYSTEMS, *The British Tax Review* Guides, Number 2, by E. B. Nortcliffe. viii + 90 pp. 10 × 6½. 21s net. Sweet & Maxwell Ltd, London.

A GUIDE TO THE PRINCIPLES OF COSTING IN THE EUROPEAN NON-FERROUS METALS INDUSTRY. 86 pp. + glossary of costing terms and index. 10 × 8. Card covers. 16s 6d net. International Wrought Non-Ferrous Metals Council, 6 Bathurst Street, London, W2.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Liquidation Problem

SIR, - Regarding the liquidation problem posed by your correspondent, 'Kettering' (September 3rd issue), when a statement of affairs is presented to the company and the directors resolve to call a meeting of creditors for the purposes mentioned in Sections 294 and 295 of the Companies Act, 1948, the directors should be advised to open a further bank account in the company's name, at a branch other than their own bankers. The directors and one independent professional person such as the possible liquidator, should have powers to deal with this account. All moneys received by the company should be paid into this account so that no question of set-off arises as far as the company's own bankers are concerned, which may be to the detriment of the company's creditors.

It is, of course, a question of intention on the part of the company to prefer a surety for a debt due to a creditor, but in the circumstances outlined by your correspondent, it would appear that the case of *Re M. Kushler Ltd* ([1943] Ch. 248) would be of guidance and if so, the appropriate action should be taken.

Yours faithfully,

London, W1.

B. M. IGRA.

Business Slide Rules

SIR, - I read with interest the article on 'Business Slide Rules' in your issue of September 3rd, 1960. May I remedy what I consider an important omission? It is that no reference was made to any form of circular slide rule, apart from the mention of the 'Otis-King' calculator.

I graduated from the straight slide rule to a circular one, and would not under any circumstances revert. The best circular rule I know is the 'Fowler Jubilee Magnum'; this is like a large watch, $4\frac{3}{4}$ in. in diameter, and provides two scales, one $13\frac{1}{2}$ in. long for normal use, and an inner spiral one 79 in. long for extra accuracy. A rule of this type has the following advantages over the straight slide rule.

- (1) No transferring of the calculation from one end of the scale to the other, since the scale is continuous round the dial.
- (2) No jamming of the moving parts, since they are protected from dust and damp by being enclosed.
- (3) For the same reason, no obliteration of the markings on the scales owing to wear.
- (4) Compactness - a scale 79 in. long in an instrument $4\frac{3}{4}$ in. in diameter.

Another excellent round rule is the 'Multor' imported from Western Germany. This is a pocket model $3\frac{1}{2}$ in. in diameter with a scale approximately 10 in. long, beautifully and accurately engraved on metal discs, and costing only 37s 6d.

I have no connection with either of the firms making or supplying these instruments, apart from being an enthusiastic user of their products.

Yours faithfully,

G. O. B. JOHNSON.

Stockport, Cheshire.

SIR, - Interesting though the article on 'Business Slide Rules' was, I think your contributor passed too quickly over the limitations of the instrument.

The average slide rule is, I believe, accurate to two figures with a third by inspection. The calculations possible within these limitations are such that any self-respecting accountant would work them out either in his head or on a scrap of paper for the purpose of exercising his brain. Should he wish to solve a more complicated problem, his slide rule automatically lets him down, as it has done your contributor by converting 13s 6d to £0.694.

Yours faithfully,

PETER M. GROVE.

Sanderstead, Surrey.

Present or Payment ?

SIR, - I am a professional accountant in practice on my own account. At a social function, quite unconnected with the profession, a friend who is not a client mentioned that he would like to dispose of his business. Subsequently I put him in touch with a firm, also not a client, and as a result of this introduction a take-over was arranged.

I took no part in the take-over negotiations and naturally made no charge of any kind. The sum involved, however, was considerable and with the conclusion of the deal my friend insisted on my having a sizeable cheque.

My own view is that this sum does not fall to be 'returned' by me, but I should indeed appreciate the views of your more experienced readers.

Yours faithfully,

TORA DATA.

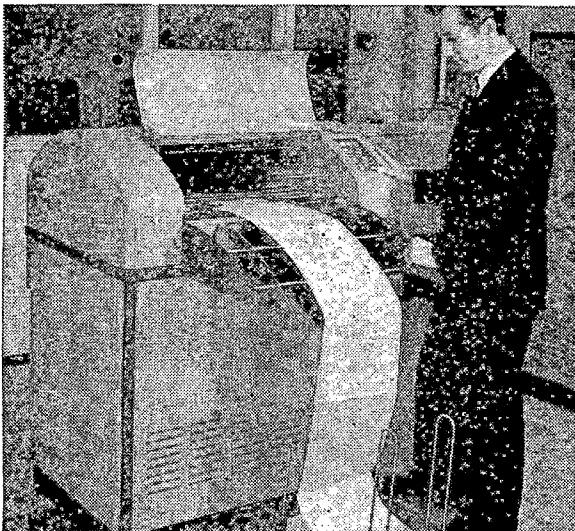
Electronics in the Office

Automatic Invoicing

A MACHINE which automatically produces up to seventy-five business documents per minute is now in operation at the London head office of Crosse & Blackwell Ltd, the well-known food manufacturers. They are the first British firm to use it.

Developed by the National Cash Register Co, the new printer is linked with a National-Elliott 405 electronic computer which Crosse & Blackwell installed some months ago. The installation has already been used to prepare a revised visible record system covering all the company's customers and containing such basic information as name and address, telephone number, account category, geographical dispatch centre and special delivery instructions. In addition to the visible record, the same information is permanently recorded on reels of magnetic film which make up the computer's memory. There is no limit to the capacity of the memory, since additional films can be used as necessary.

Under the company's new system, invoices for goods supplied to their customers are prepared on the computer and magnetically recorded on output films. These are then transferred to the printer and 'read' by special electronic devices, which send operational signals to the printing mechanism. The average invoice contains the name and address (5 to 6 lines of print), dispatch details (2 lines), commodity details (9-10 lines), and discounts and totals (2-4 lines). For these documents the production rate is 34-40 per minute, according to content. The printing is done in normal characters on continuous rolls of paper, two carbon copies being produced simultaneously. On continuous printing, the machine has an operating speed of over 600 lines per minute. The print layout is controlled automatically for each job, but can be adjusted in a matter of minutes to produce different type of record.



N.C.R. High Speed Line Printer.

New 'Language' for Computer Programmes

A NEW 'language' for writing programmes of instructions for digital computers has been developed by Ferranti Ltd. Called NEBULA, it is claimed that it will be of great value to users of computers because it is based on readily understood English words and phrases, together with punctuation marks and other familiar signs, instead of on the specialized code symbols which are normally used for programming.

Because NEBULA takes the form of statements approximating to normal English phrases it is suitable for business users unfamiliar with conventional programming methods, but it can also be rendered into a more abbreviated and symbolic form which may be preferable to experienced programmers. Such instructions, either in the familiar language form or in the abbreviated form, are tapped out directly on a keyboard and thus transferred to punched tape or cards, whichever medium is used for programming purposes.

The words and symbols used for the system are comparable with basic English, in that the instructions for programming must be built up from a restricted word list. The computer user, however, is at liberty to compile his own list of words for describing data and sequences of operations in the programme, and provision is made in the computer which will 'recognize' these.

Computing System for Lloyds Bank

AN electronic computing system has been ordered by Lloyds Bank Ltd at a cost of £350,000 for its Pall Mall branch. Based on three IBM 305 RAMAC electronic computers, each will be capable of processing the work involved on 20,000 accounts. The three units together will be capable of dealing with up to 100,000 entries on customers' accounts in one day.

The new machines will permit account posting to be carried on throughout the day and will give up-to-the-minute information at all times. The system can be extended in due course to permit the automatic handling of cheques and other documents once a decision has been taken by the Committee of London Clearing Bankers regarding the code to be printed on the vouchers.

All-transistor Computer

CLAIMED to offer all the major advances in commercial data processing, the LEO III Automatic Office - an advanced all-transistor computer - has now reached the stage of a pilot installation at the Acton factory of Leo Computers Ltd.

The LEO III is the culmination of six years' experience of operating full-scale data processing equipment on commercial work to a strict hour-to-hour timetable. Among the advantages offered by the new system are: fully transistorized circuits with wide margins of operation providing reliability and easy maintenance; a large directly addressable quick-access magnetic core store with automatic checking; multiple input and output units operating simultaneously to

read and record alpha-numeric information and 'time-sharing' facilities enabling two or more programmes to operate concurrently.

The computer operates directly on decimal numbers, sterling numbers, or any other notation of coinage, weights or measures. No programmed conversion of numbers from one form to another is needed either when information is read in or the results recorded.

The circuits are fully transistorized and arithmetical

and logical operations are carried out at high speed. A typical time is 44 micro-seconds for addition or subtraction, including store access. A magnetic core storage system is employed with a capacity of up to 32,768 words of ten decimal digits. All information passing to and from the store is automatically checked.

The first production model is expected to be completed by the middle of 1961, and the first commercial installation to be fully working by April 1962.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND MEETING OF THE COUNCIL

A meeting of the Council of The Institute of Chartered Accountants in Ireland was held in Dublin on Thursday, August 25th, 1960.

Attendance

The President, Mr G. E. Cameron, was in the chair, and there were also present Messrs H. E. A. Addy, John Bacon, A. S. Boyd, G. A. P. Bryan, Frank Cleland, M. M. Connor, N. V. Hogan, G. F. Klingner, John Love, R. E. McClure, R. J. Neely, R. P. F. Olden, H. W. Robinson and D. McC. Watson, with the *Secretary* and *Assistant Secretary* and the *Joint Secretary and Treasurer* in attendance.

Apologies for absence were submitted from Messrs A. E. Dawson, *Vice-President*, J. F. Dempsey, James Graham and James Walker.

Death

The death of Mr Cecil Victor Smylie, F.C.A., of Belfast, was reported and noted with regret.

Associates in Practice

The following Associates were admitted to practice:

Donnelly, Thomas Francis Edward (Belfast). Murray, Bernadette Catherine (Dublin).

Membership

The following candidates who were successful at the Institute's Final examination held in May 1960 were admitted to membership as Associates:

(a) In practice

Johnston, William Kenneth (Lambeg, Co. Antrim).

(b) Not in practice

Bennett, William T. F. (Dublin); Buttimer, Raymond Leslie (Dublin); Clements, David James (Belfast); Corcoran, John Patrick (Dublin); Davidson, Thomas Rainey (Dungannon, Co. Tyrone); Dempsey, Robert Augustine (Surrey, England); Dillon, David John (Dublin); Dolan, Albert Joseph (Belfast); Elwood, John Charles (Glanmire, Co. Cork); Fleury, Robert McKechnie (Monkstown, Co. Cork); Gallagher, Donal Brendan (Dublin); Hogan, John Daniel (Tramore, Co. Waterford); Houston, John Campbell (London); Hurley, James Bernard A. (Dublin); McKenna, Hugh Joseph (Dundalk, Co. Louth); McKiernan, Francis (Corlesmore, Co. Cavan); Meagher, Patrick John (Thurles, Co. Tipperary); Mooney, Maurice Desmond (Dublin); Morrow, William Trevor (Limerick); O'Connor, Brian (Dublin); O'Daly, Arthur James (Thurles, Co. Tipperary); O'Donnell, Leo (Dublin); O'Hara, Peter Alexander (Cushendun, Co. Antrim); O'Leary, William M. (Cork);

O'Rourke, Bernard Joseph (Carlingford, Co. Louth); Orr, David Harold (Belfast); Owens, Gerard (Dublin); Scott, Laurence (Lisburn, Co. Antrim); Thompson, Brian Alexander (Bangor, Co. Down); Titterington, Basil James (Dunmurry, Co. Antrim); Turkington, Thomas William (Moira, Co. Down); Wheeler, Kenneth Graham (Belfast); Whelan, Ronald T. O. (Dublin); Wilson, Ernest Henry David (Bangor, Co. Down); Zachary, James Peter (Belfast).

The following candidates who were successful at the Final examination held in May 1960 under the syllabus of The Society of Incorporated Accountants (in voluntary liquidation) were admitted to membership as Associates not in practice:

Bevan, Joseph F. (Dublin); Brady, Liam Eamonn (Cork); Brennan, Joseph A. P. (Dublin); Donohoe, Michael Vincent (Dublin); Duncan, Ronald Sinclair (Belfast); Finlay, Sidney Perry (Celbridge, Co. Kildare); Gethings, John Rober Chamberlain (Greystones, Co. Wicklow); Graham, Edward (Ballymena, Co. Antrim); Grogan, Raymond Brendan (Dublin); Little, Brian Sean Wallace (Dublin); McCullagh George (Dublin); MacDermott, Lorcan (Dublin); Mountaine, Noel Charles (Dublin); O'Rahilly, Colm A. (Dublin); Schlesinger, Richard Laurence (Dublin).

At a short ceremony the President welcomed a number of the new Associates to whom he presented certificates of membership.

The following were admitted to membership of the Institute as Associates under the terms of the Scheme of Integration:

McCarry, Gerald Francis (Kano, Nigeria); Russell Samuel George (Salisbury, Southern Rhodesia).

One suspended member was reinstated.

Articles of Clerkship

Approval was given to an application for permission to spend four months during service under articles in a commercial undertaking.

Examinations

It was decided to hold Intermediate and Final examinations of the Institute in Belfast and Dublin on November 8th, 9th, 10th and 11th, 1960.

The Final examination of The Society of Incorporated Accountants (in voluntary liquidation) which is being conducted in Ireland by the Institute, will also be held in Belfast and Dublin from November 8th to 11th, 1960.

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTES

(8 & 9 Eliz. 2)

Chapter 45: Appropriation Act, 1960

An Act to apply a sum out of the Consolidated Fund to the service of the year ending on the thirty-first day of March, one thousand nine hundred and sixty-one, and to appropriate the supplies granted in the Session of Parliament.

Price 3s 6d net. July 29th, 1960.

Chapter 46: Corporate Bodies' Contracts Act, 1960

An Act to amend the law governing the making of contracts by or on behalf of bodies corporate; and for connected purposes.

Price 4d net. July 29th, 1960.

Chapter 47: Offices Act, 1960

An Act to make further and better provisions for health, welfare and safety in offices; and for purposes connected therewith.

Price 9d net. July 29th, 1960.

Chapter 48: Matrimonial Proceedings (Magistrates' Courts) Act, 1960

An Act to amend and consolidate certain enactments relating to matrimonial proceedings in magistrates' Courts and to make in the case of other proceedings the same amendments as to the maximum weekly rate of the maintenance payments which may be ordered by a magistrates' Court as are made in the case of matrimonial proceedings.

Price 1s 3d net. July 29th, 1960.

Chapter 49: Public Health Laboratory Service Act, 1960

An Act to establish a Public Health Laboratory Service Board for the exercise of functions with respect to the administration of the bacteriological service provided by the Minister of Health under Section seventeen of the National Health Service Act, 1946.

Price 4d net. July 29th, 1960.

Chapter 50: House of Commons Members' Fund Act, 1960

An Act to extend the powers of investment of the trustees of the House of Commons Members' Fund.

Price 3d net. July 29th, 1960.

Chapter 51: Road Traffic (Amendment) Act, 1960

An Act to make provision with respect to the grant of licences to drive motor vehicles to persons who have held licences to drive such vehicles in Northern Ireland, the Isle of Man or any of the Channel Islands.

Price 3d net. July 29th, 1960.

Chapter 52: Cyprus Act, 1960

An Act to make provision for, and in connection with, the establishment of an independent republic in Cyprus.

Price 9d net. July 29th, 1960.

Chapter 53: Oil Burners (Standards) Act, 1960

An Act to make provision for minimum standards of efficiency and safety in respect of oil-burning appliances; and for purposes connected therewith.

Price 6d net. July 29th, 1960.

Chapter 54: Clean Rivers (Estuaries and Tidal Waters) Act, 1960

An Act to amend the Rivers (Prevention of Pollution) Act, 1951, so as to give to river boards powers to deal with new outlets and new discharges of trade or sewage effluent into tidal waters or parts of the sea.

Price 6d net. July 29th, 1960.

Chapter 55: Nigeria Independence Act, 1960

An Act to make provision for, and in connection with, the attainment by Nigeria of fully responsible status within the Commonwealth.

Price 9d net. July 29th, 1960.

Chapter 56: Statute Law Revision Act, 1960

An Act to revise the statute law by repealing obsolete, spent or unnecessary enactments.

Price 6d net. July 29th, 1960.

Chapter 57: Films Act, 1960

An Act to consolidate the Cinematograph Films Acts, 1938 to 1960.

Price 2s net. July 29th, 1960.

Chapter 58: Charities Act, 1960

An Act to replace with new provisions the Charitable Trusts Acts, 1853 to 1939, and other enactments relating to charities, to repeal the mortmain Acts, to make further provisions as to the powers exercisable by or with respect to charities or with respect to gifts to charity, and for purposes connected therewith.

Price 4s net. July 29th, 1960.

Chapter 59: Adoption Act, 1960

An Act to amend the law with respect to the revocation of adoption orders in cases of legitimation, and to make further provision in connection with the revocation of such orders under Section twenty-six of the Adoption Act, 1958.

Price 3d net. July 29th, 1960.

Chapter 60: Betting and Gaming Act, 1960

An Act to amend the law with respect to betting and gaming and to make certain other amendments with a view to securing consistency and uniformity in, and facilitating the consolidation of, the said law and the law with respect to lotteries; and for purposes connected with the matters aforesaid.

Price 3s net.

July 29th, 1960.

Chapter 61: Mental Health (Scotland) Act, 1960

An Act to repeal the Lunacy (Scotland) Acts, 1857 to 1913, and the Mental Deficiency (Scotland) Acts, 1913 and 1940; to make fresh provisions with respect to the reception, care and treatment of persons suffering, or appearing to be suffering, from mental disorder, and with respect to their property and affairs; and for purposes connected with the matters aforesaid.

Price 6s net.

July 29th, 1960.

Chapter 62: Caravan Sites and Control of Development Act, 1960

An Act to make further provision for the licensing and control of caravan sites, to authorize local authorities to provide and operate caravan sites, to amend the law relating to enforcement notices and certain other notices

issued under Part III of the Town and Country Planning Act, 1947, to amend Sections twenty-six and one hundred and three of that Act and to explain other provisions in the said Part III; and for connected purposes.

Price 2s 6d net.

July 29th, 1960.

Chapter 63: Road Traffic and Roads Improvement Act, 1960

An Act to facilitate the enforcement and administration of the law relating to road traffic and to vehicles on roads by providing for the punishment without a prosecution of offences in connection with lights or reflectors on vehicles, or with obstruction, waiting, parking and kindred matters, and for the employment of traffic wardens in aid of the police; to amend the law with respect to parking places, the regulation of traffic and the costs of removing and storing vehicles and to provide for the disposal of abandoned vehicles; to make temporary amendments of the law relating to highways in the metropolitan police district and the City of London; to make provision as to the effect of regulations made or having effect as if made under Section sixty-four of the Road Traffic Act, 1960; and for purposes connected with or arising out of the matters aforesaid.

Price 2s net.

July 29th, 1960.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS BROWN, PEET & TILLY, Chartered Accountants, of 62 London Wall, London, EC2, announce that Mr G. J. ROSE, C.A., Mr L. G. HARPER, A.C.A., and Mr R. J. CLARK, A.C.A., all of whom have been members of their staff for some years, have been admitted into partnership as from September 1st, 1960.

MESSRS CLARK, BATTAMS & Co, Chartered Accountants, of 32 Victoria Street, Westminster, London, SW1, announce the retirement, on August 31st, 1960, of their senior partner, Mr H. SYDNEY ORTMANS, F.C.A., who has been associated with the firm since 1906. The practice will continue to be carried on by the remaining partners and the name of the firm remains unchanged.

MESSRS HARMOOD BANNER, LEWIS & MOUNSEY, Chartered Accountants, of 24 North John Street, Liverpool, 2, announce that they have admitted into partnership, as from September 5th, Mr GEORGE BRANDON HODSON, F.C.A.

MESSRS SWALES & GARNETT, Chartered Accountants, of The Exchange, Bradford, announce that as from September 1st, 1960, they have amalgamated with Messrs RUSHWORTH, INGHAM & RHODES, Chartered Accountants, of 45 Well Street, Bradford, and the practice will be carried on under that name and at that address.

Appointments

Mr A. Henderson, F.C.A., has been appointed deputy chairman of Associated Chemical Companies Ltd.

Sir Joseph Latham, C.B.E., F.C.A., has been elected a director of George Wimpey & Co Ltd.

Mr A. H. Cheetham, F.C.A., formerly assistant area general manager, Area 1, NE. Division, National Coal Board, has been appointed an assistant director-general of finance as from September 1st, 1960.

Mr H. S. Scott, D.S.O., F.C.A., has been appointed to the boards of London Paper Mills Co Ltd, Empire Paper Mills Ltd, and Sun Paper Mill Co Ltd.

Mr W. G. M. Price, F.C.A., has been appointed secretary of Barry & Staines Linoleum Ltd.

Mr S. Laws, A.C.A., has been appointed secretary of Carter & Co Ltd, and its subsidiaries.

INLAND REVENUE APPOINTMENTS

The Board of Inland Revenue have appointed Mr H. T. Veall to be controller of death duties in succession to Sir Edward Tucker who has retired from the public service. They have also announced that Mr H. W. Hewitt has been appointed a deputy controller of death duties in succession to Mr Veall.

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**THE INSTITUTE OF CHARTERED
ACCOUNTANTS IN ENGLAND AND WALES****November 1960 Examinations**

Full details of the Institute's and the Society's November examinations are again included under 'Official Notices' in this issue. In the announcement in last weeks' issue, no reference was made to the Intermediate and Final examinations being held in Manchester. This was an omission; these examinations will be held at that centre, as well as at the others mentioned, on the dates stated.

Members' Library

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

- Chapman's Five Hundred Points in Club Law and Procedure; thirteenth edition; by F. R. Castle. 1960. (Club & Institute Union, 8s 6d.)
- Common Body of Knowledge Required by Professional Management Consultants. (Association of Consulting Management Engineers.) New York. 1957. (A. of C.M.E., 36s.)
- Company Secretarial Practice; by A. Palmer, F.C.A.: ninth edition. 1960. (Longmans, 18s 6d.)
- Economics: a general introduction; by F. Benham: sixth edition. 1960. (Pitman, 20s.)
- Exploration in Management; by W. Brown. 1960. (Heinemann, 30s.)
- Financial Incentives for Management; by R. C. Smyth. New York. 1960. (McGraw-Hill, 66s.)
- Fiscal Policy in Underdeveloped Countries with special reference to India; by R. J. Chelliah. 1960. (George Allen & Unwin, 20s.)
- General Financial Knowledge: the principles and practice of finance; by E. M. Taylor, F.C.A., and C. Lawton, A.C.A.: seventh edition; by E. M. Taylor, F.C.A., and A. H. Coles. 1960. (Textbooks, 25s.)
- Gentlemen of the Law; by M. Birks. 1960. (Stevens, 25s.)
- Handbook of Standard Time Data; by A. A. Hadden and V. K. Genger. 1955. (Thames & Hudson, 70s.)
- The Internal Purchasing Power of the £. (Treasury.) 1960. (Treasury, gratis.)
- Introduction to the Theory and Practice of Management; by N. Branton. 1960. (Chatto & Windus, 21s.)
- The Law of Agency; by G. H. L. Fridman. 1960. (Butterworth, 37s 6d.)
- Making Money on the Stock Exchange: a beginner's guide to investment policy; by C. Gifford and J. A. Stevens. 1960. (Macgibbon & Kee, 15s.)
- Mining Accounting in Canada: an outline of accounting and income tax problems peculiar to the industry; by A. J. Little and W. L. Macdonald. Toronto. 1960. (Canadian Institute of Chartered Accountants, presented.)
- *Ranking, Spicer & Pegler's Mercantile Law ... partnership law and the law of arbitrations and awards; by D. F. de L'H. Ranking, E. E. Spicer, F.C.A. and E. C. Pegler, F.C.A.: eleventh edition; by W. W. Bigg, F.C.A. and R. D. Penfold. 1960. (H.F.L., 25s.)
- Simplified Cost Records for Newspapers; by J. J. Berliner and Staff. New York. 1959. (J. J. Berliner and Staff, 112s.)

* This book has been presented to all District Society Libraries under the grant of books scheme.

**THE CHARTERED ACCOUNTANT
STUDENTS' SOCIETY OF LONDON**

The seventh autumn residential course for members of The Chartered Accountant Students' Society of London, will be held, as previously announced, at Balliol and Jesus Colleges, Oxford, from Thursday, September 15th, to Sunday, September 18th. Lectures and discussions will be as follows:

Thursday: 'From auditing to management accounting', by Mr R. A. Myers, B.A., A.C.A., chief accountant, J. Langham-Thompson Group.

Friday: 'The future of international trade', by Mr J. C. Hunt, B.A., executive secretary, Britain in Europe Ltd. 'Raising business capital', by Mr D. L. Murison, M.B.E., director, Helbert, Wagg & Co Ltd.

Saturday: 'Recent developments in company law', by Mr F. R. G. Lowe, B.A., LL.B., Barrister-at-law.

Sunday: Service in Balliol College Chapel by Rev. F. L. M. Willis-Bund, M.A., Dean of Balliol College. 'How the Inland Revenue department administers income tax', by Mr S. H. H. Hildersley, Senior Principal Inspector of Taxes.

**MANCHESTER CHARTERED
ACCOUNTANTS' STUDENTS' SOCIETY**

A wide variety of lecture meetings has been arranged for the 1960-61 session of the Manchester Chartered Accountants' Students' Society. The programme up to the year-end, is as follows:

September 29th. 'Auditing', by Mr W. W. Bigg, F.C.A., H. Foulks Lynch & Co Ltd.

October 6th. 'The role of the Official Receiver in bankruptcy', by Mr W. H. Meredith, Official Receiver in Bankruptcy.

October 13th. 'The United Kingdom and the European Common Market', by Mr A. R. Iersic, B.Sc.(ECON.), B.COM.

October 20th. 'The changing face of Manchester', by Mr Leonard C. Howitt, M.Arch., Dip.T.P., D.P.A., F.R.I.B.A., M.T.P.I., City Architect of Manchester.

October 27th. 'Modern trends in life assurance', by Mr J. S. Gee, F.I.A., Assistant Actuary, Refuge Assurance Co Ltd.

November 3rd. Visit to the offices of the *Evening Chronicle*, Thomson House, Withy Grove, Manchester.

November 10th. 'Investment and the stockbroker', by Mr J. J. Cummins, B.A.(COM.), David Q. Henriques & Co.

November 17th. 'Man bites dog'. A short talk on newspaper work.

November 24th. 'Accountants in tort - a study in case law', by Mr J. Stewart Oakes, Barrister-at-law.

December 1st. 'Accounts and overdrafts', by Mr N. V. Underwood, A.I.B., Midland Bank Ltd, Manchester.

December 8th. 'Consolidated accounts', by Mr K. S. Carmichael, A.C.A., H. Foulks Lynch & Co Ltd.

December 15th. 'The articulated clerk and his training', by Mr A. H. Walton, F.C.A., member of the Council of The Institute of Chartered Accountants in England and Wales.

In addition to these meetings, Saturday morning lectures will be held at the Chartered Accountants' Hall and at the Reform Club, Chapel Street, Preston.

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THE INSTITUTE OF INTERNAL AUDITORS
Yorkshire Chapter

The next meeting of the Yorkshire Chapter of The Institute of Internal Auditors will be held at 7 p.m. on Tuesday, September 27th, at *The Guildford Hotel*, The Headrow, Leeds, 1, when Mr W. W. Burke, divisional organization and methods officer, National Coal Board, will speak on 'Organization and methods'.

Information regarding the activities of the Chapter can be obtained from the secretary, Mr J. Coates, Shell-Mex and B.P. Ltd, Shell-B.P. House, Eastgate, Leeds, 2.

Birmingham Chapter

The first meeting of the 1960-61 session of the Birmingham Chapter of The Institute of Internal Auditors will be held at *The Cambridge Inn*, Cambridge Street, Birmingham, on September 15th, and will take the form of an 'Open forum'.

Non-members are welcome and inquiries regarding membership and activities of the Chapter should be addressed to the secretary, Mr G. T. L. Judson, chief internal auditor, Ansell's Brewery Ltd, Aston Cross, Birmingham, 6.

BRITISH INSTITUTE OF MANAGEMENT
National Conference

The fifteenth national conference of the British Institute of Management will be held in Harrogate from October 11th-13th. The opening address will be given by Brigadier Sir John Hunt, C.B.E., D.S.O.

At the twelve sectional meetings a variety of current topics of interest and concern to management will be discussed including addresses on 'The accountant in management', by Mr K. W. Bevan, F.C.A., financial comptroller, B.O.A.C.; 'An objective approach to pay differentials', by Dr Elliott Jaques, social science officer, Glacier Metal Co Ltd; 'The Restrictive Trade Practices Act', by Mr W. J. Brown, of Bristows, Cooke & Carmichael; 'Automation and the older worker', by Mr A. G. B. Owen, C.B.E., chairman, The Owen Organization; and 'Planning and controlling an efficient use of financial resources', by Mr S. J. Elliott, A.C.A., director of finance, Ford Motor Co Ltd.

Informal discussion groups have been arranged for those wishing to discuss further the subjects treated at the sectional meetings. As an alternative to the discussion group meetings a programme of recent industrial films will be shown. A civic reception is to be given by the Mayor of Harrogate and at the closing dinner the guest speaker will be Professor C. Northcote Parkinson, author of *Parkinson's Law* and *The Law and the Profits*.

Full details, may be obtained from the Conference Secretary, British Institute of Management, 80 Fetter Lane, London, EC4.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 12th, 1885
A Weekly Note

'John Davis, a Manchester accountant, was committed for trial a few days ago on a charge of forging a cheque,' so says the *Birmingham Gazette* of the 29th ultimo. It is much to be regretted that the term 'accountant' is used so indiscriminately. The gentleman named is not a member of the Institute, and was more probably a mere non-descript, who for convenience was shortly described by a term to which he had no right.

THE PROFESSIONAL CLASSES AID COUNCIL

The thirty-ninth annual report of the Professional Classes Aid Council for the year ended March 31st, 1960, shows that the total available income for the year amounted to £24,217 compared with £22,682 in the preceding year. Total expenditure amounted to £24,748 (£22,730) comprising £18,741 for relief of all the several kinds mentioned in the report, £4,474 for administration costs and £1,533 for other expenses including appeals and publicity, rates and property repairs.

During the year, 423 families received financial aid and in addition to general assistance given in cases of distress, grants were made for the education of children and training of students and for additional help in the cases of elderly and infirm people.

The Council is composed of representatives of nearly all the professional bodies and works in close association with their benevolent funds and other welfare institutions. The Institute of Chartered Accountants in England and Wales is represented on the Council by Mr J. A. Allen, F.C.A., and The Association of Certified and Corporate Accountants by Mr S. C. Jones, F.A.C.C.A. The address of the Council is 20 Campden Hill Square, London, W8.

HOSPITAL FINANCE OFFICERS' CONFERENCE

The tenth annual conference of the Association of Chief Financial Officers in the Hospital Service in England and Wales is to be held in the Connaught Rooms, London, WC2, from November 10th-11th.

'The quest for efficiency in the hospital service' will be the theme of the conference and speakers will be Mr R. W. Bavin, Accountant-General, Ministry of Health, and Professor R. W. Revans, Faculty of Technology, University of Manchester. The annual luncheon of the Association will take place immediately following the conference.

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Half-way between Budgets

THE fiscal year has half run its course and the occasion has been marked by a very encouraging report¹ about the expected level of private investment for the rest of this year and into 1961. It is a fit moment to see if the official forecasts of last spring are proving correct.

Last April exports were expected to stay buoyant and personal expenditure was to rise. Public current outlay was considered to be rising and private investment was relied on to go up by 10 per cent. The build-up in stocks was expected to continue and foreign investment was to stay at a high level. It will be remembered that at the Budget a broad hint was given that steps would likely be taken very soon to curb the expansion of private credit. This last part of the forecast came about fairly quickly. Bank rate went up in June.

As might be expected, the outcome has not been wildly different from the forecast. Personal expenditure has increased, and that despite the reintroduction of hire-purchase controls, for the public has eased off its purchases on consumer durables (and even this may soon be a passing phase since consumers tend to shrug off the obstacles to higher buying quickly, provided incomes go on rising as they have done). In their place it has raised outlay on food-stuffs, other non-durables and services. The course of public expenditure, over which the Government has no control in the short run and a great deal of control in the long run, is expected to work out according to plan. The trend of stocks is fairly satisfactory although, to judge from the trend of imports, steel stocks are beginning to rise quite steeply.

The two points at which official guess-work has been least inspired are exports and private investment. The export record since the Budget has been disappointing - worrying enough, in fact, to persuade THE PRIME MINISTER to make a special appeal for the export effort. It has been apparent for a long time that the British exports have been dangerously dependent on motor-cars and aircraft and the failure of the export drive is measured in the inability of the economy to diversify its export effort in the face of a lag in these two products. The sluggish state of the United States economy, coupled with the success in that market of the new small American home-produced cars, has been sufficient to throw into relief the failure of British exports to develop quickly in other directions in other markets. The faltering in exports has shown again the dangers this country runs in being at a disadvantage in the European Common Market, a market which is expand-

¹ Board of Trade Journal, September 9th, 1960.

ing basically at a rapid pace, even if that rate of expansion is temporarily flattening out this summer. The consequence of lack of resilience in exports on the balance of payments position has been obscured so far for the general public and the official statistics, by the flow of 'hot' money to London where interest rates continue high compared with other international centres.

The prospects for exports are not easy to assess. This is both a short-term and a long-term problem. Since so much reliance in the past has been placed on a few products, it follows that other lines must be vigorously sold to take their place. This can hardly be done quickly. There are two reasons for this. The first is the time lag which must elapse between a decision to increase an export drive for any particular product and the result of that effort being seen in payment for bigger deliveries. Secondly, there will have to be a switch over to some extent of resources to those industries which can export on a larger scale than at present and this again takes time especially when a consumer goods boom is easing off to be overtaken by a capital goods boom in the home market.

Since the war there has been one very fortunate conjuncture for British exports. At no time have the North American and Australian markets experienced a depression simultaneously. When the North American markets have been sluggish, the Australian one has been buoyant and vice versa. For the future this see-saw may not operate in quite the same way. There is still a reasonable prospect that the United States and Canada will have only mild recessions as in the last decade but the Australian market may not be as accommodating as in the past. This will not be so much because of the trade cycle but because Australia is gradually dismantling its imperial preference system and United Kingdom exports will have to struggle if they are to go up with the market. Here is a further reason why the European Common Market may be critical for us.

In these circumstances it is surprising how optimistic business sentiment has remained. According to the latest returns put out by the Board of Trade after a sample investigation of business opinion in July and August, private fixed capital investment for this year will turn out to be 20 per cent higher than last year compared with an estimate of 16 per cent made

earlier. As a first forecast for 1961 they expect to spend 12 per cent more on capital equipment than this year.

Expansion is concentrated, according to the Board of Trade return, in steel, motor vehicles, rubber and paper. Rubber is to be interpreted in a wide sense to include sections of the chemical industry. Nevertheless, the outstanding feature of the forecast is the important part in a high rate of expansion to be played by very few industries. There have been recent signs that some sections of heavy engineering are beginning to experience lengthening order books as the build-up to capacity operations goes on but this is hardly yet reflected in these capital investment figures.

The outlook for the next twelve months is therefore for a significant and welcome boom in investment in manufacturing industry accompanied by a problematical export position.

There is one aspect of this which is of particular interest to the accountancy profession. Now that these Board of Trade figures are a regular feature (the reviews of business sentiment by the Federation of British Industries perform a complementary and equally useful function), the question of the timing of capital investment becomes worthy of further study. For instance, has the present mood of business confidence been the outcome of the Government's expansion programme in the winter of last year—a mood which cannot quickly be seriously affected by changes in Bank rate and similar measures of control—or is it the result of a careful assessment of those new restrictions in June? Is business confidence at top management and board level something which after all cannot be changed quickly for better or for worse: is there to be always an inevitable time lag each way?

Accountants today play a big part in organizing accounting data for management decisions. More and more major policy decisions of expansion and contraction are being based, fortunately, on the rapid translation of historical data into statistics for future direction. If it is true that business sentiment is moving slowly each way because it is sluggish or ill-informed (and these latest figures hint, but no more than hint, that this may be so) then accountancy has a big contribution to make still to the control of the trade cycle both in a strictly professional sense and also at board and top management level.

Transferring Money

THE clearing banks announced last week that on October 24th, the second stage of their credit clearing would be established, when credits paid in at one branch for an account at another will be transmitted through the clearing instead of being posted direct. The first stage, it will be remembered, inaugurated last April, was the passing of traders' credits and standing order payments through the clearing. That made no difference to customers. This second step means that credits paid in at other branches (or indeed other banks) will take a day longer to reach their destination. This will not disturb the majority of bank customers, and those who are overdrawn and habitually receive large credits paid in at other branches (as, for example, chain stores), will no doubt make it clear to their banks that they do not expect to see their interest increased as a result of this change of machinery. The banks, it is understood, have no wish to profit from the change.

The credit clearing is, of course, exactly parallel to the cheque clearing. Early in the history of the cheque it became impracticable for every bank office to send direct the cheques it received drawn on other bank offices, and the development of the clearing system as the solution to this problem made possible the later enormous expansion of the cheque habit. Now all inter-bank and inter-branch credits are to be cleared in the same way. And the banks' announcement included the statement that when it is desired to hasten the credit it can still be sent direct from branch to branch, just as cheques can be specially cleared. For the credit sent direct a special fee will be charged.

The second change, although it involves a theoretical reduction in service in the additional day's delay, is, like the first, of little importance to the public. Both are necessary preliminary steps before the third stage which will be of substantial interest to the banking public and to many who do not yet use the banks at all. For when the time comes, credits will be received 'at a modest cost' from anyone – customer or non-customer – for transfer to any banking account

anywhere. This will be very close indeed to the various Continental 'giro' systems. It has always been possible to make payments of this kind, by means either of traders' credits or the 'customer's credit' transfer. But the banks have never encouraged the general use of either, and probably could not do so now without the credit-clearing machinery.

The principal effects of the introduction of a full credit transfer system will be twofold. In the first place, customers finding that they can pay their bills by credit transfer and can collect a number of bills together and pay them in this way with the use of only one cheque, will use the system fairly freely. They will be encouraged to do so as more and more creditors send out credit forms ready completed with their bills. Further, as the practice increases many more non-customers will be introduced to it, and through it to the banks; and a proportion of them at least will be likely sooner or later to open their own banking accounts, a tendency which will no doubt be reinforced as the Wages Act comes into full effect. The banking habit seems likely to spread widely in the next few years.

Everyone seems likely to gain from the development of credit transfers – always assuming that the modest charge really is modest. Businesses whose book-keeping has been simplified already with the passing of endorsements will welcome the even greater simplification that will be possible when stage three comes. Private customers will welcome the possibility of using fewer cheques. Non-customers will be able to use the banks without having to have banking accounts. And the banks will welcome their increased business, provided that they can muster staff and premises to handle it. No date has yet been given for the next step, but when it comes the banking system will be substantially improved. It may have needed the Radcliffe Committee's report and the threat of Post Office competition to bring the improvement into being, but when it comes we need not look the horse too closely in the mouth on this score.

Are Directors Masters or Servants?

CONTRIBUTED

THE unique position which company directors occupy makes them masters rather than servants of a company, for the fortunes of a company are determined in the boardroom and not at shareholders' meetings. This view may be said to emerge from an early case, *Erlanger v. New Sombrero Phosphate Co* ((1878) 3 App. Cas. 1218 H.L.) where it was stated that

'directors are competent and intelligent judges as to whether the purchase ought or ought not to be made'.

Although shareholders have the statutory power to select or remove the directors and may check any abuse or misuse of power by them, they can only do this in properly convened meetings which are not always easy to arrange. Of course, certain sections of shareholders may apply to the Courts to have cancelled any altered object which may be contrary to their interests, and the general remedy of the doctrine of *ultra vires* has always been available to ensure that the powers of the company are not exceeded.

Powers of Directors

While it may be admitted that shareholders may have the ultimate authority in a company, directors have full measure of control over the company's day-to-day activities subject to observance of the memorandum and articles of association. They can convene and regulate meetings, make and unmake contracts for the company, borrow money and mortgage property for the company, buy and sell property on behalf of the company, appoint and dismiss staff for the company. They must, however, have the consent of the shareholders to effect a merger or go into voluntary liquidation. Though if either of these events is contemplated, it would amount to an intention to cease operation, so that the existence of the company comes to an end.

Directorship is come by in two ways: firstly, by appointment in the articles as a subscribing director; and secondly, by election after incorporation. In both cases directors are required to possess a shareholding qualification. Once directorship is attained, a change takes place in the appointee's legal rights and obligations. In order to find out the nature of such change, one may first consult the definition of 'director' given in Section 455 (1) of the Companies Act, 1948:

'"Director" includes any person occupying the

position of director by whatever name called.'

This definition is not very helpful in indicating what specific legal person a director is; whether a master, or a servant or clerk of the company. To answer this, reference must be made to the authorities prior to the Companies Act, 1948: In *Normandy v. Ind Coope & Co* ([1908] 1 Ch. 84) it is stated:

'Directors are not as such employees of the company or employed by the company.'

And again:

'No managing or other director is a person in the employment of the company.'

It follows from this that directors are not servants of a company or members of its staff. This is supported by the authority of *In re Newspaper Proprietors Syndicate* ([1908] 2 Ch. 349) which quotes:

'A managing director is not a clerk or servant of the company.'

However, under Section 54 (1) (b) of the Act, a director can become an employee or servant of a company in certain circumstances when he holds a salaried employment or an office in addition to that of his directorship.

Personal Benefit Precluded

In the eye of the law, directors act as agents for the company. For instance, in the making of contracts on its behalf, and then, naturally, the company alone is liable as principal. They also find themselves in the position of trustees for the company when using their power of approving transfers, issuing and allotting shares, and making calls on shares not fully paid. Because of this, they are forbidden to make any personal profit from the company's business. It was held by the Court of Appeal in *Parker v. McKenna* ((1874) 10 Ch. App. 96) that a director had to account for profits made in dealings with new capital.

There are two other reasons why one cannot accurately describe a director as a master:

- (1) he is free from the company's servants' tortious acts; and,
- (2) the source of his authority emanates from the shareholders, though they do not always exercise it.

In torts, the law exempts directors from any liability in respect of tortious acts of the company's servants. It makes the company alone answerable, unless a director is privy to the tortious act, as

is clear from the case of *Performing Right Society v. Cyril Theatrical Syndicate* ([1924] 1 K.B. 1):

'Prima facie a managing director is not liable for tortious acts done by servants of the company unless he himself is privy to the acts.'

Broadly speaking, therefore, a director is a novel legal person and it is not possible to define

comprehensively his legal rights and obligations. He is a novel legal person because he combines the twin legal conceptions of an agent and trustee. Accordingly, he is subject to such legal remedies as an agent and a trustee are exposed to under both common law and equity, in addition to those laid down in the Companies Act, 1948.

Practice Organization

II — THE USE OF STAFF

by R. S. WALDRON, F.C.A.

IN the previous article in this series it was stated that the criterion of success as a professional accountant was service to the client, and it was suggested that one of the essentials was an adequate form of audit notebook or file for every client so that the background of the accounting information presented should be fully appreciated. At a later stage in this series it is intended to suggest ways in which the actual presentation of this information may itself be varied, in content and in form, to the mutual advantage of practitioner and client.

Delegation

A matter of first importance to which it is proposed to devote this article is the planning of the staff employment, having particular regard to specialization. Normally, the small firm cannot expect to organize its services on the basis of departments for particular aspects of professional work or advice, nor can it afford to employ pure specialists on particular topics. The majority of the staff of such an office will have a general knowledge of most matters, and will usually know rather more about the work of auditing and accounts than about any other single aspect of their work. Taxation work may often be undertaken by a partner or a qualified assistant, but this may be the only degree of true specialization which exists.

We have considered already how easily a partner in this type of firm may fail to delegate his work adequately or allow himself the opportunity of keeping abreast of current developments and views. It is thus obvious that efficient staff planning is of fundamental importance. Not only must the normal routine of the office be arranged in order that no client is neglected but there should be at least a moderate degree of elasticity so as to accommodate the more unusual requests for service (e.g. probate work, investigations, etc.)

which may arise at any time with little warning. It is no less essential that members of the staff should be as up to date in their knowledge as the partners themselves, and some method of ensuring this must exist.

Selection

The main problems relating to staff are perhaps the following:

- (1) selection and recruitment (including selection of a good age-spread);
- (2) training;
- (3) allocation of work;
- (4) maintenance of standards;
- (5) specialization.

There is little doubt that of all these points, the most important is the first. The time spent on interviewing and selecting staff, however hard it may be to afford, is never wasted.

It is also necessary that the staff should be well balanced from an age-group point of view. No office can easily survive the loss, at a single period of time, of a number of men of long and trusted service and it is obviously beneficial if retirements occur at well-spaced intervals. This serves to support the senior staff as well, by providing natural successors and deputies.

It is, however, equally true that no member of any staff can give of his best unless adequately served by a properly organized system. This includes allowing senior staff sufficient assistance to enable them to escape submersion in detailed work, as well as affording time and opportunity for the sort of training (both to articled clerks and those on the 'postgraduate' level) which will fit them for their developing duties and responsibilities in the firm.

This is not to suggest that qualified staff can be spared for long periods of intensive training, or that too many additional qualifications are to

be encouraged at the firm's expense; although, in general, some added qualifications may well enhance the prestige of the firm. Of course, such benefits to employees sometimes lead to an individual demanding a higher salary or even seeking wider fields elsewhere, but these must be regarded as occupational hazards. In any case, if higher rewards have to be paid to staff with higher qualifications, then the real answer must be that the resulting higher standard of service becoming available to clients must merit correspondingly higher fees.

Education

The training of articled clerks is a subject of its own. Suffice it to say here that while a principal has a duty to devote sufficient time to his clerks to follow their progress and assist them (or, in some cases, drive them) to greater efforts, the articled clerk must play his part; no amount of effort by the principal can help the clerk who never comes to him with his problems. The clerks, articled or qualified, who will in the long run be most successful are those who do not worry too much about 'closing time' if a client's work is urgent, and who are ready to do some of their 'further education' in their own time.

A great deal can be achieved in the medium- and small-sized office by making the greatest possible use of the experience of all the staff. This may be achieved in the following ways:

- (1) by memoranda to senior staff on developments in taxation, accounting procedures, etc. (usually arrived at after discussion at partners' meetings, but possibly also subject to discussion with staff - see (2) below);
- (2) by staff conferences or discussions, either on general or particular matters;
- (3) by making professional journals generally available, by means of a circulation list, with important articles marked for special attention;
- (4) by maintaining an up-to-date library;
- (5) by encouraging members of the staff to give time to students (e.g. in lecture halls);
- (6) by meeting other practitioners for general discussions, and notifying the staff of any positive results of general application.

Staff may also be encouraged to interest themselves in extending their scrutiny of clients' affairs by asking them for constructive comments on management and systems, many of which may assist the partners in framing final reports on the accounts, or in comparing in unusual forms the results of different periods.

Again, a new approach is a good thing with any problem, and this applies to auditing as much as to most things. Few clients appreci-

ate the constant changing of audit staff, but (as may be pointed out, if necessary) an occasional switch of audits between clerks can be of very great benefit to the client in providing a more critical approach as well as avoiding the human error of familiarity.

Specialization

On the subject of specialization opinions vary a great deal. In these days of technological developments in almost every field, it is not at all a bad thing to have some degree of specialization at senior level or amongst partners, though it is doubtful, at least, whether too much departmental division of small- or medium-sized firms is advisable. There is much to be said for the view that a greater service can be afforded to the client by men or women possessing a basic general knowledge of their affairs than in cases where those affairs are divided into watertight compartments. This division may be inevitable in the larger unit, although even there disadvantages are admitted to exist alongside the advantages, and some of the larger firms are in fact meeting the situation by some degree of staff 'grouping' so that the compartments are less watertight and the client has a greater sense of permanence in the staff supplied for his work.

It may be suggested, however, that many of the small firms would often co-operate by employing the specialist services of the larger ones if they could feel happier and more secure than they now do about the possibility of losing their exclusive professional position to the larger firm. This is a real fear and is not based merely on worries about competition (which no one whose house is in order need fear) but on anxieties that the larger firm may obtain an introduction which for some other reason may lead to a change of auditors, or in some other way reduce the future scope of the smaller firm's relationship with its client. Such a relationship is a delicate thing and it is understandable that the smaller unit, especially one which is striving to expand and increase its service, should take pains to prevent or forestall any intrusion.

The fact is, however, that such consultations as are suggested do not, except in rare and probably justified cases, lead to changes in professional appointments; and if the right sort of trust has been established and the proper standard of service is being given, then nothing but good can accrue to all concerned. There are other reasons why these fears ought to be groundless if faced realistically, and with these I hope subsequently to deal.

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Cost Accounting at the Cross-roads

II — COSTING METHODS

by KENNETH S. MOST, LL.B., F.C.A.

HAVING briefly examined in the first article the basic concepts underlying the practice of cost accounting, we now proceed to review the methodology to which these concepts give rise.

Four Stages in Cost Ascertainment

Cost ascertainment is accomplished by accumulating, classifying, allocating and apportioning costs.

Accumulation of costs refers to those which are to be found in the financial books of account, and also to some which are not. With regard to the former, the financial books of account are the records in which costs are accumulated, the other costs being accumulated outside the financial accounting system, either in the cost accounts themselves (e.g. costs which are not likewise expenditure), or else in special records relating to performances, such as factory production statistics.

Costs may be classified according to different criteria. There are two contrasting approaches to the task of cost classification. In the first of these classification proceeds from the 'cycle of the economy', namely, the sequence of events whereby liquid assets are made illiquid, incorporated as factors of production into finished goods and work in progress, and liquidated by the act of sale, followed by receipt of cash. In the second, costs are classified according to their behaviour, with or without further classification based upon the cyclical aspect of business activities.

If costs are classified according to the cycle of the economy, the procedure follows three stages. In the first of these, they are analysed into factors of production — materials, labour and expense, the last being further subdivided by type. In the second, they are analysed into their sources — cost or responsibility centres. In the third, they are analysed into the products or services produced by the business. Thus we obtain figures for costs by type, costs by source and costs by destination.

Allocation of cost is the allotment of whole items of cost (by type) to those sources or destinations with which they can positively and completely be identified. Cost apportionment, on

the other hand, consists of spreading costs classified by type over the sources where they arose or the products in which they were incorporated. Spreading costs over destinations (products) is called 'overhead absorption'.

Cost apportionment is effected in respect of:

- (a) factors of production acquired for more than one cost centre, or product or service produced. The costs are *joint costs*;
- (b) cost centre costs incurred on more than one product or service produced. The products are *joint products*. These 'overheads' are further subdivided into 'factory', 'administration' and 'selling and distribution', to reduce the possibility of apportioning a cost over an activity with which it has no causal relationship.

Types of Costing Systems

It is clear from the foregoing that the classification of costs decided upon determines the method of costing adopted. If costs are classified only by type, the method can be called 'structure costing', since it provides information on the cost of operating an organization of a particular kind. This is frequently the only form of costing available, especially to small businesses.

If costs are further analysed by cost centres, this provides a basis for process costing, if the centres are processes, or product costing, where cost centre costs are capable of apportionment to products. In process costing, costs are not classified by products, but the quantity of what is obtained from the process is divided into the process cost to provide a unit product cost. Since, however, the majority of processes give rise to joint products, the situation is clearly analogous to the form of product costing which apportions cost centre costs over products. In both cases arbitrary assumptions, rule of thumb devices and subjective judgements are all invoked to apportion the costs over the products.

If costs are analysed by products or services produced, whether by taking products individually or according to some predetermined grouping, we have the basis of job-order, contract or batch costing.

Costs may be classified primarily in accordance

with their behaviour, however, which leads to their analysis into fixed and variable, normal and abnormal and standard (or estimated) and actual. This type of classification has provided the point of departure for two developments in cost accounting of far-reaching implications, namely, marginal (or direct) costing and standard costing.

Allocation and Apportionment

We have contrasted allocation, the allotment of whole items of cost to sources and destinations, with apportionment, whereby items of cost are spread over a number of sources and destinations. These procedures result from a distinct approach to the classification of cost, which regards it as either 'direct' or 'indirect'.

The concept of directness is a purely personal one, and therefore differs from one business to another, as well as from one industry to another. Shortly stated, direct costs are those which can be related to particular products, or services, produced, either individually or in batches or groups. Thus, the direct costs of a process relate to all the products of that process; the direct costs of a job order or contract relate only to that job order or contract; the direct costs of a batch relate only to that batch. In marginal costing, the direct costs are split into their fixed and variable elements, and only the variable direct costs are included in the 'direct' cost of the product.

Indirect costs are costs incurred on more than one product or product group. It must be borne in mind that these categories change with the viewpoint of the observer and also with the passage of time. All costs are direct in relation to a particular cost or responsibility centre, but not all centres are isolated for this treatment. If the destination of the cost is regarded, then a cost may be direct today and indirect tomorrow. Where a machine setter-up normally prepares machines for a variety of products, his wages will be regarded as indirect from the standpoint of the different products worked, but if his entire time is spent on setting up machines to work on a specific batch, then his wages are a direct cost of the batch.

The utility of this analysis of costs into direct and indirect, then, is that it provides a flexible structure for the process of costing in any business with which the quantitative data available can easily be made to correspond. (This structure is illustrated diagrammatically in opposite column.)

Apportionment of cost centre costs to products, and to cost of sales, is called 'overhead absorption'.

Another type of apportionment is encountered

when the costs of one cost centre are distributed over others for which it functions. The latter are receiving a service which they would otherwise have to purchase outside the business; therefore the former are called 'service cost centres'. Examples are the power-producing and repair and maintenance departments of a factory. Where the costs of one department (e.g. building occupation costs) are apportioned over service cost centres (among others) and the costs of the service cost centres are reapportioned over the manufacturing and other cost centres, the situation can become very involved and only explicable by having recourse to algebra.

Process of Costing

In accordance with the above explanation, the process of full costing, as it is called, can be summarized in the following manner, which is itself a summary of the stages defined by R. Warwick Dobson. (*Introduction to Cost Accountancy*, vol. I, page 117.)

- Step (1) Charge direct costs to products or services.
- (2) Charge indirect costs to cost centres or 'functional' accounts, such as administration.
- (3) Apportion costs of service cost centres to those cost centres for which they function.
- (4) Apportion remaining cost centres to products or services.
- (5) Transfer product or service costs to cost of sales.
- (6) Transfer 'functional' costs to cost of sales.

Both (5) and (6) are based upon the sales for the period. The accumulation of costs by type precedes this sequence.

Type Accounts	Cost Centre Accounts	Product Accounts	Cost of Sales Accounts
LABOUR			
Direct		→ (1)	
Indirect	→		
MATERIALS			
Direct		→ (1)	
Indirect	→		
EXPENSE			
Production			
Direct		→ (1)	→ (2)
Indirect	→	→ (2)	
Selling and distribution			
Direct		→ (1)	
Indirect			→ (2)
Admin.			
Indirect			→ (2)

(1) Allocations. (2) Apportionments.

We have referred to apportionment as a 'spreading' or distribution of costs over a number of different cost centres or products. This is done by ascertaining a cost rate, which may be actual or predetermined cost, a specific price (e.g. one calculated by the business for itself), or a market price (e.g. the price which would have been paid if the service had been purchased from an external supplier). The choice of cost rate cannot be said to follow any universal rule, and often depends upon the personal preference of the individual cost accountant and the complexity of the particular business situation.

Among the bases used in calculating a cost rate are the following:

- (i) unit of output (actual or predetermined);
- (ii) percentage of material cost;
- (iii) percentage of labour cost;
- (iv) percentage of prime cost (direct material plus direct labour);
- (v) labour-hour rate (actual or predetermined);
- (vi) machine-hour rate (actual or predetermined).

As on closer examination each of these methods displays serious deficiencies, there is a tendency to introduce refinements into the calculation of cost rates, in the same way that Governments constantly legislate to close up loopholes in the fiscal laws they have enacted. Just as these loopholes are never regarded as the consequence of the laws, but only of the efforts made to evade them, so cost accountants rarely pose the question whether, if all cost rates are defective in some way, the calculation of cost rates is the best way of dealing with the problem.

• Principle of Causality

One rule, or principle, can be discerned in the practice of apportionment by means of cost rates, and that is the need to respect causality. A cost centre, or a product, can only be made to bear those costs which its existence, or operations, have occasioned. To cite an extreme example, personnel costs such as a canteen subsidy or employees' holiday pay, would not be apportioned to the production expense of a fully automatic process, since no personnel would be engaged on this particular activity.

The principle of causality is applied by finding some quantity, the magnitude of which varies as nearly as possible in exact proportion to the magnitude of the cost to be apportioned. The cost of heating a building, for example, can be charged to the rooms according to radiator output.

Total heating costs are divided by total radiator surfaces, expressed for convenience in kW of heat output, and the cost rate thus obtained is applied to the capacity of the radiators room by room. True, complications can arise even in this simple example: one or more of the radiators in the rooms may have been closed down during the period. But other factors, such as the volume and location of the rooms, can be ignored, for a 2 kW radiator can only give off 2 kW of heat.

The principle of causality is often disregarded, for the simple reason that it is too complicated to follow. The variety of situations which occur in any business and the number of different forms which incurring costs may take are too great to permit any but the most pedantic cost accountant to follow the principle to its logical conclusion. Instead, costs are grouped according to some preconceived idea of similarity and dealt with in group totals in a manner which respects a causal relationship of some kind, but not necessarily one which is equally appropriate to each individual item. That is why the cost rates listed in the previous section have been developed.

Costs Must Relate to Performances

The only generalization which we are justified in making about cost accounting, is that the figures which appear on the debit side of the cost accounts (costs) must bear a determinable relation to those which appear on the credit side (performances). Labour costs must therefore be analysed in a manner which corresponds to the type of labour employed, the payment of remuneration, the places where work is done and the products or services produced. Material costs must be analysed by type of material purchased and place stored and worked upon, and by product or service. Expense costs must be analysed by type of expense purchased, place where expense is incurred, period to which it relates and function for which it is utilized.

In the same way, once these factors of production have entered into the creation of a finished product, or work in progress, stocks of these items must be analysed in accordance with the products and the places where they are stored. Sales and cost of sales accounts will be analysed in conformity with the analysis of products or services produced, and according to the territories in which the sales are effected, the salesmen by whom they are made, the conditions under which they are sold, and so on.

(To be continued.)

Weekly Notes

Residential Courses

THIS is the month of summer schools and courses. As reported on other pages in this issue, the eighth summer school of the Scottish Institute set the ball rolling at St Andrews last week-end, and on Thursday of this week members of The Institute of Chartered Accountants in England and Wales assembled in Christ Church and Pembroke College, Oxford, for the Institute's fourteenth summer course which is now in progress. As previously announced in this column, the subjects of the formal papers are auditing, organization of a practising accountant's office and pension schemes, while on Sunday members will hear informal talks by Sir Joseph Simpson, K.B.E., Commissioner of Metropolitan Police, and The Rt. Hon. Ernest Marples, P.C., M.P., F.C.A., Minister of Transport, on subjects of their own choice.

Meanwhile, from Thursday of this week until Sunday, members of the London Students' Society are attending their seventh residential course at Balliol and Jesus Colleges.

Then, on Monday, members of The Institute of Cost and Works Accountants will return to St Catharine's College, Cambridge, for their eleventh residential summer school. Here, until the end of the week, cost accountants in groups and open session, will be discussing such topics as 'The stranglehold of paper', 'Sample costing' and 'Business forecasting and long-term planning'; they will also hear an address by Sir Frank Bower, C.B.E., M.A., on 'The effects of taxation on company policy'.

Further references to these courses will appear in subsequent issues.

Odd Man Out in a Decimal World

THE subject of the adoption of decimal coinage by the United Kingdom has received another airing. This time it was at the annual conference of the British Association for the Advancement of Science held in Cardiff last week. A joint report published earlier this year by the Association and the Association of the British Chambers of Commerce and referred to in a leading article in our issue of May 7th, favoured the introduction of decimal money and the Government subsequently stated that it must discover what the country thinks about the proposal.

Speaking at the conference, Dr A. H. Hughes, chairman of the Association's metric committee, suggested that Britain might well find itself before long in the position of 'odd man out' in an increasingly decimal world. Disadvantages of a changeover to decimal coinage would be transitional, he said, and the cost, about £100 million, which the public

would have to bear in one way or another, was not excessive in relation to our resources and would be spread over several years.

A decimal coinage system could be introduced within three years, Dr Hughes said, though to introduce a metric system for all purposes would take considerably longer, mainly because of the large amount of industrial inch/pound equipment and machinery built into that system. He suggested that there were two main risks arising from the inexact conversion between the old and new coinage systems; fraud, stemming from confusion among the slower-witted, and inflation, resulting from upward rounding off of those values which had no exact conversion factor. 'There is an air of inevitability about the metric system and the public would be well advised to educate itself and its children in this spreading and rational system'. Referring to the increase in foreign travel, Dr Hughes said that people were appreciating the ease of calculation in weights and measures and in money in metric countries and the advantages which such uniformity had when crossing from one country to another. He also pointed out that the European Common Market had set up a committee to establish standards within their territory and the European Free Trade Association were watching that development very closely.

Trustees' Powers in Scotland

WIDER discretion in approving the revocation or alteration of the provisions of a legal trust in the interest of the beneficiaries is one of the principal recommendations contained in the ninth report of the Law Reform Committee for Scotland¹.

The committee, under the chairmanship of Lord Walker, were invited by the Lord Advocate to consider and report upon the law relating to the powers of trustees to sell, purchase or otherwise deal with heritable property and the variation of trust purposes. For many years, the report states, it has become increasingly apparent that the traditional type of trust settlement is too inflexible for modern conditions. For example, a number of older trusts were designed to preserve the settled property for successive generations, but under present-day conditions, particularly looking to the impact of taxation, so far from preserving the property, such provisions may have the opposite effect. If capital can be invested only in 'trustee' securities heavy depreciation may emerge in a period of inflation; if the income is substantial and payable to a life tenant, it may be largely taken up by estate duty.

The variation of trusts by sanction of the Court, accepted under English law, would, if adopted in Scotland, represent a 'fundamental innovation'. Nevertheless, the committee say they are satisfied that the innovation should be adopted in Scotland, where there is 'a claimant professional and public demand therefor'.

¹ H.M.S.O. Price 1s.

The Price of Variety

A REPORT published this week by the British Productivity Council¹ points out that reduced costs and high productivity can be obtained by a conscientious policy of 'variety reduction' without it necessarily significantly reducing the consumer's choice of alternatives.

The report states that a careful examination of the sales of each line produced over a period of years gives not only an indication of which lines are providing most of the sales turnover but also very often that a comparatively small proportion of these lines account for a high proportion of total turnover. For example, typical figures show that as little as 20 per cent of the range of products may be responsible for as much as 80 per cent of sales.

The council suggests that competitors within an industry might usefully discuss their ranges with one another to get agreement to eliminate lines which are sold as mutual irritants. The report quotes examples from a group of leading companies to show the savings which can be achieved by a systematic policy of variety reduction. Once upon a time the idea of competitors exchanging information on one another's lines would have seemed quite impracticable. The growth of exchange of information—the latest being the spread of the use of management ratio techniques—shows that British industry is increasingly aware that success may be based on bold and intelligent decisions on as wide a collection of data as possible, rather than on secrecy.

Pattern of Government Expenditure

ACCORDING to an analysis of Government current expenditure over the last twelve years, published in the latest issue of the *Bulletin for Industry* the burden of the Government's current outlay in 1959 was 28.2 per cent of the national income compared with 34.5 per cent in 1948. In money terms the national income increased by nearly 100 per cent over this period and Government current expenditure by two-thirds. Nevertheless, the fact remains that the State was taking a smaller proportion of the national income annually at the end of this period in the form of a direct claim on national resources and as transfer payments within the economy, than at the beginning of it.

The main changes in the pattern of spending have been a rise in the share going to defence up to 1953 with a subsequent decline, a rise in the share taken by the health services, a decline in subsidies and a growth in local authorities' grants especially for education. These figures, which are based on the national income statistics, do not take into account capital expenditure. The tendency in recent years has been to run a persistent surplus above-the-line and a persistent deficit below-the-line; above-the-line or mainly current expenditure being used to meet part of the large deficit below-the-line:

¹ B.P.C., 21 Tothill Street, London, SW1. Price 5s post free.

Advice for Small Investors

LORD RITCHIE, Chairman of the London Stock Exchange, discussed this week the large growth in share-ownership and how it should be encouraged. Commenting on take-over bids he said that he did not think much more could be done by legislation and that the subject had been 'rather blown up'. Take-over bids were a natural evolution of businesses amalgamating.

So far as voteless shares are concerned, he said that he did not regard them with favour but that it would not be wise or right to ban dealings in them. Action on voteless shares was a matter for the Government, the Companies Act and for the shareholders—not for the Stock Exchange.

Plea for Lower Air Fares

PRESSURE continues to be exerted by this country and the United States for lower air fares. At the annual meeting of the International Air Transport Association held this week at Copenhagen the Director-General, Sir William Hildred, said that the supersonic aircraft was a prospect which had to be faced. Such an aircraft was a technological possibility and he urged airlines to take the initiative in defining the kind of supersonic airliner which they would require. He thought that such an aircraft would mean both cheaper as well as faster transport.

The industry was now about half-way through a re-equipment programme. This would bring the total jet fleet of the I.A.T.A. (which has eighty-nine member airlines) to about 600 by the end of 1962. By the end of 1961 there would be a surplus in the industry of between 1,200 and 1,800 piston-engined aircraft. In 1959 operating revenues in the industry had increased by 11.8 per cent and operating expenses by 8.8 per cent. The provisional estimated profit was 3.1 per cent compared with a figure of one-half of 1 per cent in 1958. Lower fares, he said, had played a vital role in developing international traffic and they were the keynote of any further development. When the delivery of new aircraft brings available capacity to a new peak in the next few years it will be increasingly important to attract new traffic and tourists were the market of the future for the industry. The best way to find new traffic and open new markets was to lower international fares.

Larger Australian Market

IN the first seven months of this year Australian imports increased by 25 per cent compared with the same period of 1959. It was last February when the Australian Government abolished licensing on all but one-tenth of the country's imports and increased those quotas which remained by 20 per cent. There is every prospect, therefore, of a larger Australian market for imported goods.

It cannot be assumed that the United Kingdom can make off with the major part of this increase. In the last six years the percentage of Australian imports

coming from this country has dropped from 45 to 36 per cent and most of this has been lost to the Dollar Area, Western Germany and Japan. The imposition of import controls by the Australian Government has worked in the past to some extent in favour of this country because quotas and similar arrangements were nearly always based on past trade. Since 1957, however, Australia has reduced the preference on many United Kingdom capital

goods and the Australian market is now very much more competitive than it was a decade ago. Discussing these problems in its latest issue, the *Bulletin for Industry* (issued by the Treasury) says that this country's export drive to Australia has also been affected by the number of United Kingdom firms now manufacturing in Australia. By November 1957 they totalled nearly 500 according to a booklet published by the Australian Department of Trade.

This is My Life . . .

by An Industrious Accountant

CHAPTER 42

THERE are moments in an accountant's life when he feels that he has achieved success; that he has graduated into the Olympian realms of top management where personality is the only criterion of merit and the chairman's gavel lies within foreseeable grasp. Napoleon referred to the field-marshal's baton carried in the knapsack of each of his soldiers and a similar analogy is applicable to ambitious accountants; unfortunately, the moments sometimes only flatter to deceive.

Our deputy-chairman visited me yesterday. Normally a rather overbearing type, he seemed for once to be ill at ease and prowled around the office in moody style, asking questions but not listening to the answers. I got a nervous feeling myself at first. Was he bracing himself to announce a salary cut? But no; he sat down suddenly and blurted it out. He wanted to ask my advice . . . it was about his son . . . a psychological problem . . . the boy had blotted his copy-book recently.

I must admit that I was delighted. In the complexity of modern business, with the mass of work in the accounts section, it is impossible to be master of all the details; one can rarely give more than a general answer to a sudden query. It's a matter of turning up old records, or calling in the office manager or the departmental accountant for consultation, and broadly, speaking, it's only routine work. But when a director has a family skeleton to unveil, it's a different matter; it's essentially a personal *tête-à-tête*. So I gave him the full treatment.

'Yes,' I said meditatively, 'yes, 1960 is the year for neuroses . . . for fixations . . . tell me about it.' My tone was warm, vibrant, sympathetic, helpful but discreet, breathing a healing human comfort. Or so I hoped. The deputy-chairman didn't seem to notice anything unusual; he fidgeted with my ornamental cigarette lighter. 'The boy's been stealing,' he said doggedly. 'Do you know of a good psychiatrist?'

My 'yes, yes' sounded hoarse. (Was it the petty

cash . . . that East London wages snatch . . . a film star's jewellery? Should I mention Freud . . . refer to an Oedipus complex . . . to schizophrenic brainstorms? Pity I couldn't pronounce that last one.) 'He's nine,' said the deputy-chairman. 'He's been pinching golf-balls and selling 'em.' He dropped the lighter and broke it; my pipe-dream shattered simultaneously.

I found it difficult to keep a straight face. Apparently he took the boy to caddy for him on holidays and the fourball promised him a shilling for every ball he found as an added incentive to tramp the hills with them. He proved a quick learner. He only found one ball the first day, but he found eight on the third, running up behind the players with the ball they'd given up at the previous hole. Later he deserted them to take up his surreptitious station in a small wood where a dog-leg at the seventh adjoins a blind drive at the long tenth, and levied toll on every passing fourball. 'I can't understand it,' said the aggrieved parent. 'He's always had everything he wanted.'

I thanked my stars, as my ambitions about a future career in personal consultancy faded away into oblivion, that I hadn't mentioned heredity.

But that's only half the story; our deputy is always a wily tactician. It transpired that he wants me to invite a psychiatrist down to discuss a project of psycho-analysing some of our senior staff who seem to have reached their 'plateau' - in the new phraseology - and he will then put forward his own personal problem as a hypothetical case. This avoids domestic publicity and also costs him nothing. To avoid being too involved himself, he wants me to sponsor the visitor on an informal basis at first, so that the mastermind can look over his victims at leisure.

'Think it over,' said the deputy-c. 'There's one of our top staff who's been riding for a fall this long time now. If he gets a bad report it will strengthen my hand.' This cryptic but ominous announcement left me rather worried and conscious of new and unpredictable developments ahead. Maybe I should have stuck to accounts and costings and taxation, and left the baton and the gavel to someone else. I must study this psychiatry-in-industry development closely; fortunately our library contains several glossy modern magazines with learned articles on the subject, and the application of their general principles to our particular cases should be interesting.

Finance and Commerce

Brought Forward

THE accounts to March 31st, 1960, of Ada (Halifax) Ltd, a company that has moved on from machine tools to become a quite familiar name in the domestic appliance industry, whose annual meeting was held last Tuesday, are the subject of this week's reprint. The company's particular lines are electric washing machines and refrigerators.

There is, in these accounts, a reminder of a point made some time ago in this column: that the year's profit and loss account should deal with the year's figures and arrive finally at a plus or minus figure showing the extent to which the year's income had been under- or over-appropriated. Any entry for balance 'brought forward' should properly come below that line. Company practice in this connection varies. Many profit and loss accounts are, of course, drafted on those lines.

The point may not, perhaps, be so material where the profit and loss account is double-sided and the

balance for the previous year comes in low down, but with the growing use of the vertical form where profit and its adjustments read down from line to line, the point of entry of the balance brought forward is not unimportant.

Profits Retained

In this connection, the report of the directors of Ada (Halifax) (not part of the reprint) is worth considering. This opens in the customary way with a statement that the 'net profit for the year as shown by the annexed accounts amounted to £107,908'. To this is added £197,441 brought forward from the previous year to make a total of £305,349, then there is the deduction of £33,688 for the interim dividend of 10 per cent, less tax, leaving a balance for appropriation of £271,661.

All seems to be going well. The next paragraph however, continues: 'In view of the deterioration in trading conditions following the reimposition by the Government in April last of hire-purchase controls and the necessity to conserve the company's resources, the directors regret that they are unable to recommend the payment of a final dividend and they accordingly recommend that the balance of £271,661 be carried forward.' At that point, the reader may turn to the balance sheet where the £271,661 appears not as the 'carry forward' on profit and loss

ADA (HALIFAX) LIMITED PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1960

1959				1959			
£	£	£	£	£	£	£	£
—	PROVISION for loss on Forward Contracts for materials		14,000	350,267	PROFIT ON TRADING (See Note 3)		205,494
	TAXATION based on the Profit for the year			850	INTEREST ON TAX RESERVE CERTIFICATES		1,672
37,000	Profits Tax	17,000					
135,473	Income Tax	69,970					
172,473		86,970					
1,118	Less Adjustment in respect of previous years	1,712					
171,355		85,258					
179,762	NET PROFIT FOR THE YEAR carried down	107,908					
£351,117		£207,166		£351,117			£207,166
£	£	£	£	£	£	£	£
	DIVIDENDS			179,762	NET PROFIT FOR THE YEAR brought down		107,908
23,000	Interim Dividend of 10% less				BALANCE BROUGHT FORWARD FROM LAST		
50,531	Income Tax	33,688		91,210	YEAR		197,441
73,531	Proposed Final Dividend	—	33,688				
197,441	BALANCE CARRIED TO BALANCE SHEET	271,661					
£270,972		£305,349		£270,972			£305,349

NOTES TO BE READ IN CONJUNCTION WITH THE ANNEXED ACCOUNTS

(1) There are outstanding commitments for capital expenditure not provided in these Accounts amounting to approximately £36,000 (1959 £9,000).

(2) The issued capital of the Subsidiary Companies, which have not traded and whose names are used to market the products manufactured by the Holding Company, is represented by bank balances, and in view of the insignificant amount involved the Directors are of the opinion that Group Accounts would be of no real value to members of the Holding Company.

(3) The profit on trading shown in the Profit and Loss Account has been arrived at after charging the following items:—

	Year ended 31st March 1960	Year ended 31st March 1959
Depreciation	£ 51,557	£ 38,886
Auditors' Remuneration	787	787
Directors' Emoluments:		
for services as Directors	1,629	6,53
for services as Executives	11,245	14,311

A glance round the rest of the account points to the probability that the 'Balance carried down, £203,199

compared with £219,715, as being the chairman's 'trading surplus' but this is after including investment income £1,423, transfer fees £29, and tax reserve certificate interest £87, and after charging £98,148 depreciation and £41,895 special depreciation, £5,000 written off patent rights, £9,000 written off shares in subsidiaries, £27,383 for directors' emoluments, £29,051 contributions to pension fund, £209,420 taxation and £5,267 minority interests.

Dividend Background

FOR its first accounting period from March 26th, 1959, to April 30th, 1960, The British Land Company Ltd is paying a total dividend of $8\frac{1}{2}$ per cent against a prospectus forecast of $7\frac{1}{2}$ per cent. The background to this payment is interesting. The forecast of $7\frac{1}{2}$ per cent depended to a large extent on the immediate and satisfactory investment of the substantial capital sum available as a result of the merger of interests through which the company was formed.

The chairman, The Earl of Shrewsbury and Waterford, explains that unfortunately the property

market immediately underwent a radical change so that it became far more difficult to acquire suitable properties. Unexpected delay in completion of one substantial purchase increased the difficulties and a very large income which should have been available from June 24th, 1959, was frozen. Funds earmarked for this purpose were invested in local loans but the shortage of income was the equivalent of about 1 per cent on the whole capital of the company - £3,406,300 in 5s Ordinary shares. While it seems that all obstacles have been overcome, income from this investment cannot be treated as revenue prior to completion.

Another source of income helped to fill the gap in the shape of sales of certain properties, and in spite of this non-recurring income, the directors felt justified in recommending the distribution of the bulk of the profits because, from a recent survey it is evident that the company's ordinary investment income - after administration expenses and profits tax - is now running at a rate equivalent to nearly 9 per cent per annum without taking into account the prospective improvements already mentioned.

CITY NOTES

WITH the stock-markets having second thoughts on the soundness of the recent boom, the problem posed by the trade gap is being more seriously considered. The main conclusion reached is that hopes of an early lifting of the present not particularly onerous credit restrictions are, to say the least, premature. Furthermore it is gradually being more widely realized that Bank rate and credit restrictions are now poles apart.

A sharp reduction in the Treasury bill rate a week ago might have fostered lower Bank rate hopes, but the Bank of England took the almost unprecedented step of forcing the discount market into borrowing from the Bank last Saturday morning, following the bill rate fall. This was taken as forceful evidence that monetary policy is extremely well in hand. Bank rate is clearly not being reduced in a hurry.

Meanwhile on the industrial front the news is of a fresh run of new money calls. The Bowater Paper Corporation and the George Cohen '600' Group have foreshadowed rights offers, the English Electric Co is raising £7 million by a debenture offer and the Agricultural Mortgage Corporation, £6 million.

The unit trusts are also in the new money market with block offers, but their experience is in marked contrast to that of last year when block offers attracted applications for many more shares than were actually offered. The Shield Unit Fund recently offered one million units and received applications for 581,750.

Growth in the unit trust movement is now being earned with difficulty but that has not deterred many managements from preparing to launch new offers or, as in the case of the Save and Prosper Group, an entirely new trust.

RATES AND PRICES

Closing prices, Wednesday, September 14th, 1960

Tax Reserve Certificates: interest rates (29.6.60) $3\frac{1}{2}$ %

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	$4\frac{1}{2}$ %
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	$5\frac{1}{2}$ %	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

July 8	£5 13s	3.06d%	Aug. 12	£5 11s	5.85d%
July 15	£5 10s	2.49d%	Aug. 19	£5 11s	8.78d%
July 22	£5 9s	9.27d%	Aug. 26	£5 11s	9.05d%
July 29	£5 10s	10.96d%	Sept. 2	£5 11s	9.33d%
Aug. 5	£5 11s	7.17d%	Sept. 9	£5 10s	2.26d%

Money Rates

Day to day	$4\frac{1}{2}$ - $5\frac{1}{2}$ %	Bank Bills	
7 days	$5\frac{1}{2}$ %	2 months	$5\frac{1}{2}$ - $5\frac{3}{4}$ %
Fine Trade Bills		3 months	$5\frac{1}{2}$ - $5\frac{3}{4}$ %
3 months	$6\frac{1}{2}$ -7%	4 months	$5\frac{1}{2}$ - $5\frac{3}{4}$ %
4 months	$6\frac{1}{2}$ -7%	6 months	$5\frac{1}{2}$ - $5\frac{3}{4}$ %
6 months	$6\frac{1}{2}$ - $7\frac{1}{4}$ %		

Foreign Exchanges

New York	2.81 $\frac{3}{4}$ - $\frac{1}{2}$	Frankfurt	11.73 $\frac{1}{2}$ - $\frac{1}{4}$
Montreal	2.72 $\frac{1}{2}$ - $\frac{1}{4}$	Milan	17.46 $\frac{1}{2}$ - $\frac{1}{4}$
Amsterdam	10.60 $\frac{1}{2}$ - $\frac{1}{4}$	Oslo	20.03 $\frac{1}{2}$ - $\frac{1}{4}$
Brussels	140.47 $\frac{1}{2}$ - $\frac{1}{4}$	Paris	13.79 $\frac{1}{2}$ - $\frac{1}{4}$
Copenhagen	19.34 $\frac{1}{2}$ - $\frac{1}{4}$	Zürich	12.11 $\frac{1}{2}$ - $\frac{1}{4}$

Gilt-edged

Consols $2\frac{1}{2}$ %	45 $\frac{1}{8}$	Funding 4% 60-90	88 $\frac{1}{2}$
Consols 4%	67 $\frac{1}{8}$	Savings $2\frac{1}{2}$ % 64-67	82 $\frac{1}{2}$
War Loan $3\frac{1}{2}$ %	60 $\frac{1}{8}$	Savings 3% 55-65	88 $\frac{1}{8}$
Conversion $3\frac{1}{2}$ %	58 $\frac{1}{8}$	Savings 3% 60-70	78 $\frac{1}{8}$
Conversion $3\frac{1}{2}$ % 1969	83 $\frac{1}{8}$	Savings 3% 65-75	71 $\frac{1}{8}$
Exchequer $5\frac{1}{2}$ % 1966	97 $\frac{1}{8}$	Treasury $2\frac{1}{2}$ %	43 $\frac{1}{8}$
Funding 3% 66-68	81 $\frac{1}{8}$	Treasury $3\frac{1}{2}$ % 77-80	72 $\frac{1}{8}$
Funding 3% 59-69	81 $\frac{1}{2}$ xd	Treasury $3\frac{1}{2}$ % 79-81	71 $\frac{1}{8}$
Funding $3\frac{1}{2}$ % 99-04	64 $\frac{1}{8}$	Victory 4%	92 $\frac{1}{8}$

Reviews

Cost Accounting and Costing Methods

by H. J. WHELDON, B.COM.(LOND.), F.C.W.A., A.C.I.S.
Tenth edition by L. W. J. OWLER, F.C.I.S., F.H.A.,
A.C.W.A., and J. L. BROWN, A.C.W.A., A.COMM.A.
(Macdonald & Evans Ltd, London, 26s net).

For thirty years the young cost accountant has been nourished by Mr Wheldon's masterly work. From it he has not only learned the principles of cost accounting, but has imbibed the very atmosphere of factory and workshop, wandering at will through foundry and steel-works, paper-mill and power station, and other industries too many to enumerate. The passage of time, however, has transformed the techniques available to the cost accountant, and it had become apparent that no patching of the old work would be sufficient to meet the needs of the new generation of students and practitioners.

The tenth edition, now published, has been completely revised, the authors both being full-time teachers in cost accountancy, and what has emerged from their hands is a completely new text-book, well written, detailed, and up to the minute, having every mark of becoming as much a standard work as its illustrious predecessor.

The authors have approached their task as accountants rather than cost clerks, so that all through the book they have regard to the financial accounting implications of what is being done, and their examples are in terms of double-entry book-keeping. The rewritten chapters on cost control accounts, the reconciliation of cost and financial accounts, and on the integrated system are correspondingly good.

The chapters on overhead costing have been remodelled with improved clarity. It will come as a shock to many readers, however, that, in discussing the application of overhead to profits, the authors dismiss summarily all bases except the product unit and the various units of time. There is a similar arbitrary decision later, to deal with material variances only at the stage of issue from store. Apart from this, however, the sixty pages on standard costing are exceptionally good, and include an exhaustive study of variances from standard. Here and elsewhere, many students will welcome the provision of formulas as alternatives to narrative explanation.

There are new chapters on cost audit and the measurement of profitability; and a thirty-page treatment of marginal costing, explaining clearly three alternative methods of presenting break-even charts and exemplifying the circumstances in which the marginal technique is best applied.

Unit costing has disappeared as a separate chapter heading, and rather surprisingly, the authors have no

example of a cost summary sheet for a production cost unit. One's only regret about this work is, indeed, the disappearance of the many particular case illustrations which were such a feature of earlier editions.

A Guide to Principles of Costing in the European Non-ferrous Metals Industry

(International Wrought Non-Ferrous Metals Council
6 Bathurst St, London, W2. (16s 6d net.)

Industry and trade are great levellers of international barriers; nevertheless it is heartening that, at the present time of economic rivalry, the representatives of ten European countries should have collaborated in producing a statement of basic costing principles for application in the European wrought non-ferrous metals industry. Costing practice naturally varies from country to country, and the object of the present study is not so much to define uniform practices, as to discuss and exemplify certain principles, so that the costing schemes in operation in the member countries may be developed on uniform lines. The objectives are to enable international costing comparisons, and, still more important, to improve the quality of cost control information so as to increase productivity.

All attempts at uniform costing systems must concern themselves with two basic problems: (a) What items are to be included in product costs? and (b) How these items are to be isolated and valued? These requirements involve discussion of such costs as depreciation and interest on capital; and the determination of bases for allocating or apportioning expenses to cost centres and cost bearers. These matters are dealt with clearly and adequately by the present work.

It appears that standard costing is not at present extensively practised in the industry, and one-quarter of this book is devoted to explaining the objects and techniques of budgetary control and standard costing. In this respect, it goes beyond the *1957 Handbook of Cost Finding*, published by the British Non-ferrous Metals Federation, which merely mentioned that its recommendations were 'capable of expansion into a system of standard costs and budgetary control'.

The book contains a glossary of costing terms in English, French and German; and a select bibliography of works on standard costing and budgetary control in these languages.

Anti-trust Policy: An Economic and Legal Analysis

by CARL KAYSEN and DONALD F. TURNER. (Harvard University Press; Oxford University Press, London. 60s net.)

This, the seventh of a series of works on competition in American industry sponsored by Harvard, is largely the product of a discussion group of economists and lawyers, although the final study is written by an economist and lawyer who have their own views

on the subject. The interest in monopoly, involving restraint of trade and competition as well as concentration of economic power, has always been greater in the States than in the United Kingdom. The Sherman and Clayton Acts and the more recent federal laws, which aim at countering restraint of trade, reflect this concern.

As the Monopolies Commission has found in recent years, the task of deciding when business behaviour is contrary to the public interest is far from simple. Size alone, for example, is not necessarily a measure of monopoly power and certainly not of its abuse.

This study is especially interesting because it brings out clearly the legal and economic issues and explains, in the light of past history and cases, how these two viewpoints may conflict. For anyone interested in the regulation of monopoly and not least what may happen in this country, a study of this American work could not fail to be illuminating. It is clearly written and the approach is severely practical.

Post-war Market for State and Local Government Securities

by ROLAND I. ROBINSON. National Bureau of Economic Research. (Princeton University Press; Oxford University Press, London. 40s net.)

An important feature of local authority financing of capital expenditure in the United States has been the issue of tax exempt bonds. In the first decade since the war, writes the author, it is evident that tax exemption is no longer a significant inducement to investors, rather it has become a mere bonus. The problems this may create for State and municipal bodies seeking to raise capital in a capital-hungry world encourages the author to suggest that the time is opportune for a reconsideration of the administration and financing of State and local government affairs. Much of this study is devoted to an analysis of the methods and problems of raising capital in the existing markets and like all N.B.E.R. studies, it is at a high academic level.

The Meaning of Modern Business

by RICHARD EELLS. (Columbia University Press; Oxford University Press, London. 60s net.)

In recent years there has been a spate of literature in this country which seeks to instruct the student and young executive in the art of management. Admirable although many of these books may be, they are essentially utilitarian; they seldom discuss issues which are not directly relevant to the immediate industrial problems. This new American book by a university don is a pleasant change from the pedagogic literature. Its content is better described by the subtitle 'An introduction to the philosophy of large corporate enterprises'.

Most managers of large companies are too busy to read much beyond memoranda and papers on im-

mediately relevant matters, but this book ought to enjoy a wider readership than it will probably get. Instead of merely telling the reader how things are done in the large corporation, Mr Eells asks why these things are as they are. Is, for example, profit-maximization more important than economic power? Where does the real decision-making authority lie, with the executives or with the board? What are the social responsibilities of big business? The book is rather lengthy, but is highly readable.

Building Societies Year Book, 1960

(Francy & Co Ltd, London. 45s net; 46s 9d post free.)

This comprehensive work of reference which is the official handbook of The Building Societies Association, gives details and extended balance sheets of the 341 members of the Association and of the societies operating in Britain, Northern Ireland and the Republic of Ireland. Other regular features include tables showing comparative figures for a three-year period of total assets, current percentages of reserves, and liquid funds of over £5,000 of all the larger societies.

Figures contained within the year book show that 1959 was a year of record growth for the movement in respect of both savings and lending. On December 31st, 1959, total assets of the movement were £2,902 million, £281 million higher than at the end of 1958, while advances on mortgage during the year amounted to £511 million, an increase of £136 million on the figure for the previous year.

Economics: A General Introduction

Sixth edition, by FREDERIC BENHAM. (Sir Isaac Pitman & Sons Ltd, London. 20s net.)

In the author's own words, this new edition embodies only minor revisions and in the main these arise from bringing the statistical material, which is used to illustrate the argument, up to date. This text can be strongly recommended to any prospective student of economics and even to the general reader who is curious about the subject. For this type of reader the first four chapters are especially useful and provide an excellent introduction to the complexities of economic theory which are introduced later. Professor Benham discusses the things which most people understand economics to be about in a pleasant and readable way.

Gold and the Dollar Crisis

by ROBERT TRIFFIN. (Yale University Press; Oxford University Press, London. 38s net.)

For all the vicissitudes it suffered in the post-war period, sterling remains the main trading currency of the world, just as the dollar has served as the main reserve currency for central banks. Past experience of sterling and the present weakness of the dollar suggest that a more reliable basis for financing international trade is desirable, not least since the expansion of

world trade is outstripping the supply of gold and the reserves of these international trading currencies. Professor Triffin urges that all countries should increase their deposits with the International Monetary Fund and that changes be made which would convert that organization into an effective international central bank. It is a little ironical that an American should be thinking very much on the lines of the late Lord Keynes's proposals at Bretton Woods, and it may well be that his ideas are still too far ahead of the times.

SHORTER NOTICES

ECONOMIC INTEGRATION. THEORETICAL ASSUMPTIONS AND CONSEQUENCES OF EUROPEAN INTEGRATION, by Rolf F. Sannwald and Jacques Stohler. Princeton University Press. 40s net. This erudite study of the European Common Market by two Swiss economists seeks to explain the theoretical basis for the economic and political integration visualized by the 'Big Six' in the Common Market, and to discuss in technical terms the economic problems likely to arise in the course of integrating the national economic systems of the individual members. The book is aimed primarily at the economic theorist and discusses at the appropriate level the existing ideas of economists on the subject of customs unions. Nevertheless, particularly in the first two long chapters, there is an interesting non-technical exposition of the case for politico-economic integration which is the basis of the Common Market, as opposed to the purely economic integration underlying the E.F.T.A. advocated by Britain. The authors make their case well and the book is completely free from polemics.

RAPID STATISTICAL CALCULATIONS, by M. H. Quenouille, M.A., F.R.S.E. Charles Griffin & Co Ltd, London. Fully to appreciate this selection of distribution-free methods of estimation and testing would require a greater knowledge of statistical theory and practice than most accountants normally possess. This does not mean, however, that the comparative layman may not derive both pleasure and profit from studying Mr Quenouille's comments and examples even if the going gets progressively tougher as the words become fewer and the equations and graphs more complex.

HALLMARK. Franey & Co Ltd, Burgon Street, London, EC4. 7s 6d net. This useful publication gives, together with other relevant information, a complete list (as at November 2nd, 1959) of the 194 building societies in the United Kingdom authorized to receive funds on deposit for investment by trustees.

WHY PEOPLE BUY: MOTIVATION RESEARCH AND ITS SUCCESSFUL APPLICATION, by Louis Cheskin. Business Publications Ltd and B. T. Batsford Ltd, London. 35s net. The growth of market research has been a feature of commercial life on both sides of the Atlantic since the Second World War. Much has been learned and among the newer techniques is that known as motivation research, the object of which is to ascertain why consumers buy certain products and thereby to learn what features of the product, packaging, price, advertising and display, yield the best results. This book by an American expert and based on American experience is lively in style and the subject-matter is interesting. It is, however,

reminiscent of the advertising agency's jargon which tends to be rather wearying. Nor are the illustrative case studies as effective as they might be since most of them seek to describe the visual impact of various advertising methods, instead of showing the reader what the differences amount to. However, the purpose of the book is to explain how effective and profitable properly conducted motivation research can be, and in this it may well succeed.

THEORY OF MARKETS, by Dr Tun Thin. Harvard Economic Studies, No. 115. Harvard University Press; Oxford University Press, London. 40s net. This is a doctoral thesis on the subject of oligopoly in which the theories of Cournot, Chamberlain and Joan Robinson — among others — are discussed. Professor Thin then develops his own version of a theory of rational pricing. The treatment throughout is largely mathematical and the discussion is at a high level of economic sophistication. This study, which won a major academic award from Harvard, is strictly for post-graduates in the field of economic theory.

TRADE AND ECONOMIC STRUCTURE: MODELS AND METHODS, by Richard E. Caves. Harvard Economic Studies, No. 115. Harvard University Press; Oxford University Press, London. 48s net. This comprehensive discussion of the various theories of international trade is intended for teachers of economics and other graduates who are working in this field. The exposition is thorough and, given the subject-matter, the author has presented his material in readable fashion.

MONEY CLASS AND PARTY, by Robert P. Sharkey, PH.D. The Johns Hopkins Press; Oxford University Press, London. 44s net. This economic study of the American Civil War and reconstruction is a work for the economic historian or the monetary economist. The lay reader will, however, derive pleasure and information from a scholarly piece of research which brings to life the personalities of the times, dissects their policies and examines their motives.

MODERN COMMERCE, *Sixth edition*, by E. Sladen, B.COM., A.C.I.S. Sir Isaac Pitman & Sons Ltd, London. 12s 6d net. This is the sixth edition of a small text designed to meet the needs of candidates taking examinations in commercial subjects set by the Royal Society of Arts and similar bodies. Students taking the Intermediate general commercial knowledge paper in the Institute examinations would find it quite helpful since the contents cover legal, industrial and economic topics. The style is readable and questions from the various examining bodies over the past years are included at the end of each chapter.

RECENT PUBLICATIONS

INCOME TAXES OUTSIDE THE COMMONWEALTH. Paper covers. 9½ x 7½. £1 5s net. H.M. Stationery Office, London.

WHAT EVERY FARMER SHOULD KNOW ABOUT INCOME TAX, Third Edition, by David Shrand, M.COM., A.S.A., C.A.(S.A.). 76 pp. 8½ x 5½. Card covers. 16s net. Legal & Financial Publishing Co, P.O. Box 3461, Cape Town.

POST-WAR MARKET FOR STATE AND LOCAL GOVERNMENT SECURITIES, by Roland I. Robinson. xxiv + 227 pp. 9½ x 6½. 40s net. Princeton University Press; Oxford University Press, London.

THE CITY, by Paul Ferris. 224 pp. 9 x 6 21s net. Victor Gollancz Ltd, London.

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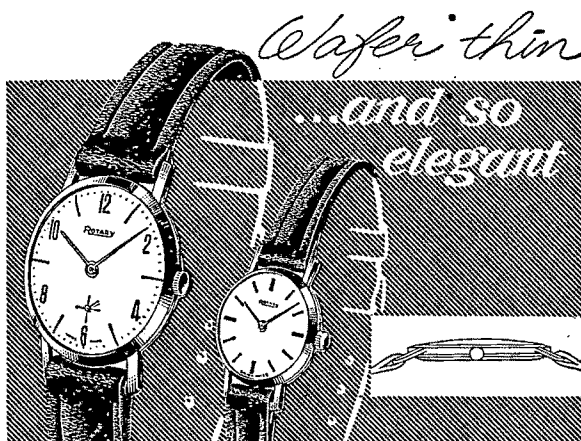
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THE 1960 INCOME TAX LEGISLATION, by A. S. Silke, M.COM., PH.D.(CAPE TOWN), C.S.(S.A.). x+201 pp. 9½×6. Card covers. 45s net. Juta & Co Ltd, P.O. Box 30, Cape Town.

CHANCE, SKILL, AND LUCK, by John Cohen. The psychology of guessing and gambling. 201 pp. 7×4½. Card covers. 3s 6d net. Penguin Books, Harmondsworth, Middlesex.

UNIT STOCK AND STORE CONTROL. Second revised edition, by Herbert Dennett. 209 pp. 9×6. 35s net. Business Publications Ltd, London.

RANKING, SPICER & PEGLER'S MERCANTILE LAW, Incorporating Partnership Law and The Law of Arbitration and Awards. Eleventh edition, by W. W. Bigg, F.C.A., and R. D. Penfold, LL.B. lv+426 pp. 9×6. 25s net. H.F.L. (Publishers) Ltd, London.

SECURITIES ACCEPTABLE TO THE LENDING BANKER, by L.C. Mather, B.COM.(LOND.), F.C.I.S., F.I.B. xii+240 pp. 10×7. 25s net. Waterlow & Sons Ltd, London.

THE LENDING BANKER, by L.C. Mather, B.COM.(LOND.), F.C.I.S., F.I.B. 99 pp. 9½×7. 12s 6d net. Waterlow & Sons Ltd, London.

FIELDHOUSE'S INCOME TAX SIMPLIFIED, 27th edn. Completely revised by H. E. D. Ayling, A.A.C.C.A., A.S.C.T. 79 pp. 7×5. Card covers. 3s 6d net. Arthur Fieldhouse Ltd, Premier Works, Paddock Head, Huddersfield.

ECONOMICS OF PIG PRODUCTION, by R. F. Ridgeon. Issued by the Farm Economics Branch, School of Agriculture, Cambridge University. 31 pp. 10×7½. Card covers. 3s 6d net.

WHILLANS'S TAX TABLES AND TAX RECKONER 1960-61, by George Whillans. 10×6. Card covers. 1-5 copies 5s 6-24 copies 4s 6d. 25 and over 4s post free. Butterworth & Co (Publishers) Ltd, London.

PERSONNEL MANAGEMENT, Principles and Practice, by C. H. Northcott, M.A.(SYDNEY), PH.D.(COLUMBIA). Fourth edition. vii+421 pp. 9×6. 30s net. Sir Isaac Pitman & Sons Ltd, London.

THE AGRICULTURAL LANDOWNER'S HANDBOOK ON TAXATION, Part II. Ninth edition, revised by F. G. Holland. 125 pp. 7½×5. 21s net. (non-members), 15s 6d net (members). The Country Landowners' Association, 24 St James's Street, SW1.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Revaluation of Fixed Assets

SIR, - I am interested to know whether any of your readers have had experience of the results of revaluation of fixed assets of a large private company with land, buildings, plant and machinery at a book value of some two or three million pounds. If a company is in no danger of a take-over bid, what good commercial reasons can be advanced for going to the expense of several thousand pounds to have a professional valuation and inventory based on current replacement cost? There is, of course, the view that capital should be written up to reflect the real value of assets employed for political reasons. There might also be some benefit as a cross check on insurance values. Are there any other benefits such as to justify the considerable expense involved?

Yours faithfully,
PRINCIPAL.

Present or Payment?

SIR, - I agree with 'Tora Data' (September 10th, issue) that the sum he received is not taxable income.

I would refer him to *Bloom v. Kinder* (38 T.C. 77). In this case, a solicitor, acting gratuitously for friends, arranged a sale of shares in a company and, subsequently, was given a gratuitous commission. The General Commissioners confirmed the assessment, but the High Court (Vaisey, J.) reversed their decision.

I would suggest that acting as a business transfer

agent is not part of an accountant's practice, and, further, if an accountant consistently so acted, he might render himself liable to accusations of unprofessional conduct. From this it seems that the money was not received in the course of a trade or profession, and follows the rule in *Bloom v. Kinder*, 'Tora Data's' position being, perhaps, even stronger than the taxpayer's in the quoted case.

Yours faithfully,
J. E. L. GRIFFITH.

Maidenhead.

SIR, - The facts mentioned in the query from 'Tora Data' (your issue of September 10th) appear to be very similar to those in *Bloom v. Kinder* (37 A.T.C. 158), in which it was held that a payment of this type was not taxable.

Yours faithfully,
V. BISKE.

Chester.

Decimal Currency

SIR, - You were kind enough to publish an article contributed by me called 'Is the £ an overstated unit of currency?' in the issue of *The Accountant*, for January 30th, 1960.

In this contribution I suggested that the establishment of a prime unit of currency of 10s termed a 'royal' could with great advantage be adopted etc.

I was gratified to read the article by Mr John Prince published in *The Daily Telegraph* of September 8th, last, quoting Dr A. H. Hughes, chairman of the metric committee of the British Association for the Advancement of Science, as recommending that 'the best system for an introduction of the decimal system would be one based on a major unit of 10s called a "royal". Each shilling would be divided into ten new pennies or cents of 20 per cent greater value than the present penny'.

I remain, Sir,
Yours faithfully,
OVERSEA F.C.A.

Practitioners and the Revenue

SIR, - The issue of September 10th, contained a quotation from an article which appeared in *The Accountant Tax Supplement* during 1932, part of which reads as follows:

'Accountants have to perform much work for which they cannot hope to be remunerated and Inspectors can minimize this. . .'

Is this the reason for low fees and even lower salaries in the profession? Can any reader tell me even one good reason why accountants should do work 'for which they cannot hope to be remunerated'?

Surely all work performed by an accountant in practice is done for the benefit of one particular client or for his clients in general. As such, unless obviously on an honorary basis, it should be adequately remunerated.

Kemsing, Kent.

Yours faithfully,
D. CUNNINGHAM.

Business Slide Rules

SIR, - I was pleased to read the article on 'Business Slide Rules' in the September 3rd issue; this

is the first I have seen in an accounting journal.

There is no doubt that the slide rule is a useful tool but your contributor suggests that 'an hour or so' will produce 'the necessary skill'. I suggest this is far from being so, in fact, the wider use of the slide rule is restricted solely by the need to spend a considerable time using it continually before facility can be gained to make its use worth while.

Unless one has done a job involving its continual use the work of an accountant will never provide sufficient practice. I have instructed several persons in the principles of its use but not one uses a slide rule today, simply because they did not persevere with practice and their daily work did not provide this.

In my early years I used one continually for twelve years and, consequently, a slide rule is always now within reach as I know its value and can use it expertly.

Yours faithfully,
R. J. PANTLIN,
Group Accountant,
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West Bromwich.

SCOTTISH INSTITUTE'S SUMMER SCHOOL**Eighth Successful Occasion at St Andrews**

The eighth summer school of The Institute of Chartered Accountants of Scotland which concluded at the University of St Andrews last Wednesday, was attended by 118 members, over one-third of whom were from south of the border. Members of the school who assembled during Friday of last week were welcomed at dinner by Professor J. H. Baxter, D.LITT., D.D., D.PHIL., Regius Professor of Ecclesiastical History, and by the President of the Institute, Mr Alexander McKellar, C.A., a summer school enthusiast and former convener of the organizing committee.

Human Relations in Industry

After dinner the first address, entitled 'Human relations in industry', was given by Mr J. A. Keyden, C.A., a director of the Pressed Steel Co Ltd. Mr Keyden, after defining the subject and giving short details of its history, then considered the present situation. He argued that the subject could not just be learned; it had to be acquired through the heart and the approach had to be as personal as possible and above all always sincere. He went on to say that a man looked for recognition of his right to make good in the world; he wished his present desires to be granted and his security assured.

The methods employed of achieving good human relations varied with the size of undertaking but in all cases must emanate from the management. Management cannot buy good relations by granting all requests - firmness and fairness coupled with a willingness to discuss matters were much more appreciated. Any trouble which arose should be faced immediately. The conventional aids towards fostering

good human relations, such as canteens, pension schemes, sports clubs (each of which should receive some contribution from employees) were discussed and Mr Keyden concluded by saying that there was a growing awareness of the importance of human relations - a good state of affairs - and he reminded his audience that the keynote to success was sincerity and honesty of purpose.

Design of Accounts

On Saturday morning Mr W. R. S. Ritchie, C.A. (a partner in Touche, Ross, Bailey & Smart, London) introduced his paper on 'The principles affecting the design of companies' reports and accounts', in which he dealt very fully with the question of including overheads in inventories. To exclude them, he contended, could produce varying profit figures all of which could not be correct yet were certified by auditors as 'true and fair'. He rejected the contention that, as long as the trend of profits was correct, the matter was not a serious one.

The other matter which concerned Mr Ritchie was the presentation of the profit and loss account and the balance sheet. He wanted more uniformity in accounts - something which would permit better comparison. Profit had a different meaning in many companies. He suggested the replacement of the balance sheet with three statements - a fixed asset statement showing assets both at original cost and in terms of current money, a working capital statement, and a statement showing the shareholders' investment.

After coffee, members were divided into ten groups to discuss the paper. The findings of the various

discussion groups were reviewed after dinner. Some members were in favour of including all overheads, others part and the remainder none. On the question of accounts, members were in favour of retaining the existing form of balance sheet well supported with notes to amplify and clarify any doubtful matters.

On Sunday, a special morning service in St Leonard's Chapel, conducted by the Rev. Ronald D. Speirs, M.A.(OXON.), B.D., S.T.M., Chaplain to the St Andrews Colleges. The lessons were read by the President and Mr G. D. H. Dewar, C.A., Convener of the Summer School Committee.

In the evening, members were addressed by Mr J. O. M. Hunter, Q.C., on 'Recent legal cases of interest to accountants'. In a racy, witty manner he dealt with many cases covering professional negligence, auditors' duties, company law, estate duty, income tax, profits tax and the Restrictive Practices Act.

On Monday, the subject was 'A study of a proposed amalgamation' contributed by Mr John Waldie, M.A. (GLAS.), B.A.(OXON.), C.A., a partner in Thomson McLintock & Co, Glasgow. Mr Waldie's paper took the form of the simulated report of an accountant on the merger of two companies. Thereafter, groups discussed treatment in cases of excessive or inadequate

working capital, voting rights, earnings versus assets valuation, gearing and the estimation of future profits.

Tuesday's subject was 'Forward planning and budgetary control' the paper on which was presented by Mr W. Millen Adam, T.D., B.SC.(ENG.), C.A., M.I.E.S., A.M.I.MECH.E., financial director, Brown Brothers & Co Ltd. The subject, which is one of growing importance, was much appreciated by members and produced interesting discussions.

The proceedings closed on Tuesday evening with a dinner at which the toast of the University was proposed by Mr G. D. H. Dewar, C.A., and Professor J. H. Burnett, M.A., D.PHIL., F.R.S.E., replied. Mr W. Hughes, C.B.E., D.L., J.P., proposed the toast of the Institute and the President responded. Also present at dinner were the Rev. Ronald D. Speirs and Mr Cedric Thorpe Davie, O.B.E., F.R.A.M., A.R.C.M. After dinner there was an informal gathering at which the various groups 'did their party pieces'.

The ideal setting afforded by St Andrews, with the first-class sporting and other facilities for relaxation which it provided, combined with - in the words of the President - the 'stimulating mental experience' of these occasions, to ensure the success of this 1960 summer school.

St Andrews, 1960



From left to right, front row: Messrs G. D. H. Dewar, C.A., Convener of Summer School Committee; W. Millen Adam, T.D., B.SC.(ENG.), C.A., M.I.E.S., A.M.I.MECH.E., *Speaker*; Thomas Lister, M.A., C.A., *Immediate Past President*; Sir John L. Somerville, C.A., F.R.S.E., *Past President*; Messrs Alexander McKellar, C.A., *President of the Institute*; G. I. Stewart, C.B.E., M.C., C.A., *Past President*; R. Ian Marshall, B.COM., C.A., *Past President*; Middle row: Messrs James T. Dowling, C.A., *Past President*; Alexander Logie, C.A., *member of Council*; J. C. Stewart, C.A., *member of Council*; H. McMichael, C.A., *member of Summer School Committee*; J. Waldie, M.A., B.A., C.A., *Speaker*; Back row: Professor D. S. Anderson, M.A., B.A., *member of Summer School Committee*; Messrs J. Duncan, C.A., *member of Summer School Committee*; E. H. V. McDougall, *Secretary of the Institute*; H. Forbes Murphy, C.A., *member of Summer School Committee*; D. A. Robertson, B.L., C.A., *member of Summer School Committee*; T. N. Ritchie, T.D., C.A., *member of Summer School Committee*; W. R. S. Ritchie, C.A., *Speaker*.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS HARRY L. PRICE & Co, Chartered Accountants, Manchester, announce that Mr JOHN BROOKS, F.C.A., retired from the partnership on March 31st, 1960. The practice will continue to be carried on under the same name by the remaining partners, ARTHUR TYLDESLEY EAVES, F.C.A., JOHN EAVES, F.C.A., GILBERT HAMER EAVES, F.C.A., and JOHN HARLING EAVES, A.C.A. Mr JOHN BROOKS will carry on practice on his own account at 121 Cross Lane, Salford, 5.

MESSRS FITZPATRICK, GRAHAM & Co, Chartered Accountants, London, announce that they have entered into association with Messrs ALLEN, ATTFIELD & Co, Chartered Accountants, of 24 Martin Lane, Cannon Street, London, EC4, the practice of which firm will, from August 31st, 1960, be carried on from 95A Chancery Lane, London, WC2. There will be no change in the constitution of the London firm of Messrs FITZPATRICK, GRAHAM & Co.

MESSRS LANDAU, MORLEY & SCOTT announce that as from September 1st, 1960, the practice of LEONARD TERRY & Co, has been incorporated with their Brighton branch and that in future the combined practices will be conducted from Martins Bank Chambers, 26 North Street, and 24 Old Steine, Brighton, 1.

Appointment

Mr James B. Duncan, C.A., has been appointed an additional director of Transport Development Group Ltd.

FAMILY ALLOWANCES

New Earnings Limits for Apprentices

Until recently, the earnings limits in respect of apprentices (which term includes articled clerks) under the Family Allowances Act, were 55s for those under 17 years of age, and 60s for apprentices between 17 and 18. Now, resulting from a decision published last week by the National Insurance Commissioner, a 17-year-old apprentice can count for family allowance if his net weekly earnings are less than 89s 6d. For apprentices aged 16 the limit is 87s, and for those aged 15 it is 84s 6d.

The National Insurance Commissioner is an independent judicial authority appointed by the Crown to determine appeals from decisions of local National Insurance tribunals, and as the final authority for appeals under the Family Allowances and National Insurance Acts, his decision is binding for the purposes of those Acts, including claims to widowed mother's allowance and other National Insurance benefits for children.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

President's Luncheon Party

The President of The Institute of Cost and Works Accountants, Mr W. S. Risk, B.COM., C.A., F.C.W.A., gave a luncheon party last Wednesday, at the Institute's headquarters, 63 Portland Place, London, W1. Those present were:

Sir Donald Anderson (*Chairman, Peninsular and Oriental Steam Navigation Co*); Mr J. H. Chapman (*Chairman, Reckitt & Sons Ltd*); Mr W. Guy Densem, F.C.A.; Mr H. J. Furness, F.C.W.A. (*a Past President of the Institute*); Mr H. Hodgson, F.C.A., F.C.W.A. (*a member of the Council of the Institute*); Mr E. R. Lewis (*Chairman, Decca Record Co Ltd*); Mr Ian W. Macdonald, M.A., C.A. (*Chairman, National Commercial Bank of Scotland Ltd*); Mr Ian T. Morrow, C.A., F.C.W.A. (*a Past President of the Institute*); Mr John Rodgers, M.P. (*Parliamentary Secretary, Board of Trade*); Mr J. P. Wilson, F.C.W.A., F.C.I.S. (*a member of the Council of the Institute*); Mr Derek du Pré (*Secretary of the Institute*).

RATING RETURN FOR 1959-60

A return of rates and rateable values¹ recently published by the Ministry of Housing and Local Government shows that the average rate levied in England and Wales for 1959-60 was 19s compared with 18s 4d in 1958-59. The rateable value of all property at April 1st, 1959, was £687,618,000 compared with £610,240,000 at April 1st, 1958, an increase of 12.7 per cent. Receipts of local authorities from rates in 1959-60 are provisionally estimated at £639 million compared with £551 million in 1958-59.

The product of a 1d general rate for 1959-60 was £2,764,293 compared with £2,442,445 in the previous rating year. The amount of rates estimated to be collected per head of population was £14 1s as against £12 2s in 1958-59, an increase of 16.4 per cent. The increase in rateable value and in the penny rate product has been brought about in large measure by the re-rating of industrial and freight transport hereditaments.

The report shows that the most highly rated urban authority during the year under review was Rhymney, Monmouthshire, with a rate of 31s 2d. Bournemouth, with a rate of 13s 6d (12s 4d in 1958-59) was again the lowest rated borough in England and Wales. The lowest rated urban districts were Tickhill, Yorkshire West Riding, and Yiewsley & West Drayton, Middlesex, each with a rate of 15s 6d.

¹ Rates and Rateable Values in England and Wales, 1959-60. H.M.S.O. Price 4s net.

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**LONDON AND DISTRICT SOCIETY OF
CHARTERED ACCOUNTANTS****Secretary's Change of Address**

The office of the Secretary of the London and District Society of Chartered Accountants, Mr J. W. G. Cocke, T.D., M.A., F.C.A., as from September 17th, 1960, will be 2 Norfolk Street, London, WC2. (Telephone: Temple Bar 3206.)

THE INSTITUTE OF INTERNAL AUDITORS**Formation of Irish Chapter**

The inaugural meeting of an Irish Chapter of The Institute of Internal Auditors will be held at 5.30 p.m. next Wednesday at *The Shelbourne Hotel*, Dublin. Mr J. O. Davies, F.C.A., A.C.W.A., European Regional Director of the Institute, will be present to explain the functions of the Institute and the conditions of membership. All who are interested in internal auditing are invited to attend.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 19th, 1885

A Weekly Note

One of the greatest tasks which Parliament will some day, and the sooner the better, have to undertake will be the adjustment and re-arrangement of our system of local authorities and taxation. Whenever that task is undertaken, one of the chief points for careful attention will be in regard to the form in which public accounts should be rendered. The form of the accounts of local boards, and local authorities other than Municipal Corporations, is prescribed by the Local Government Board, and is altered from time to time in sundry particulars as experience suggests. It is scarcely likely, however, that when Parliament is engaged in a reform of local taxation that the accounts of Municipal Corporations will be overlooked. The dissatisfaction engendered by badly drawn published accounts, the absence of uniformity, and the inconvenience experienced by persons desiring to use them for statistical and other purposes are matters of frequent mention in the press, and when the proper moment arrives we have no doubt that the importance of the subject, as connected with local government, will be forced on the attention of Parliament. For this reason we have often expressed the opinion that municipal authorities, or the Association of Municipal Corporations, would be wise in their generation if they made an attempt to introduce something like uniformity in published accounts.

PAYMENT OF WAGES ACT

Wage payment systems and how they will be affected by the new Payment of Wages Act, 1960, will be the subject of a talk to be given by Mr Hafry Samuels, O.B.E., M.A., Barrister-at-law, at a meeting to be held on September 26th, from 2.15-5 p.m. at the Industrial Welfare Society, 48 Bryanston Square, London W1.

The lecture will be followed by a discussion of the Act, and on recent developments in factory law.

ECONOMIC CONDITIONS OVERSEAS

Four new surveys in the 1960 series dealing with economic conditions in member and associated countries of the Organization for European Economic Co-operation have recently been published covering France, Denmark, Spain and the Belgian Economic Union. The booklets are obtainable from H.M. Stationery Office, price 2s 6d each.

**CHARTERED ACCOUNTANTS STUDENTS'
SOCIETY OF NORTH LINCOLNSHIRE**

At the recent annual general meeting of the Chartered Accountants Students' Society of North Lincolnshire, the following officers were elected for the ensuing year:

President: Mr A. A. Beardsall, F.C.A.

Vice-Presidents: Messrs K. B. Collinson, F.C.A., M. F. McCulloch, A.C.A., W. S. Warrs, F.C.A., H. D. Mitchell, A.C.A.

Hon. Secretary: Mr W. R. Kewley, c/o Messrs R. N. Store & Co, 23 Osborne Street, Grimsby.

Hon. Asst. Secretary: Mr N. Pike.

Hon. Treasurer: Mr G. Green.

Hon. Asst. Treasurer: Mr G. McIntyre.

Hon. Lecture Secretary: Mr B. W. Turner.

**LEEDS AND DISTRICT CHARTERED
ACCOUNTANT STUDENTS' ASSOCIATION**

The 1960-61 session of The Leeds and District Chartered Accountant Students' Association commenced last Wednesday. The programme to the end of the year includes the following:

September 21st, 4.30 p.m.: 'Amalgamation and reconstruction accounts; 6 p.m.:' Investigations: tax and other advising in practice'.

September 28th, 4.30 p.m.: 'Capital allowances'; 6 p.m.:' Loss claims'.

October 5th, 4.30 p.m. and 6 p.m.: 'Aspects of bankruptcy law'.

October 14th, 3 p.m.: Visit to Burroughs Adding Machine Ltd.

October 19th: Visit to John Player & Sons Ltd.

October 24th, 6 p.m.: Mock company meeting.

October 28th, 4 p.m.: Visit of President and Secretary of the Institute.

November 9th, 4.30 p.m. and 6 p.m.: 'Branch accounts'.

November 16th, 4.30 p.m. and 6 p.m.: 'Management accounting - budgets and forecasts'.

December 7th: Annual dance.

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UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

Members of students' societies are reminded that all students' societies welcome to their meetings members of other societies who are temporarily in their area.

There is also an arrangement for transfer of membership without additional fee for members who permanently change their district. The interchange should be carried out through the secretaries of the societies concerned.

Students' societies hold meetings in the following towns:

Ashford (Kent), Bedford, Birmingham, Blackpool, Bournemouth, Bradford, Brighton, Bristol, Cambridge, Canterbury, Cardiff, Carlisle, Chelmsford, Chester, Coventry, Derby, Doncaster, Dorking, Eastbourne, Epsom, Exeter, Grimsby, Guildford, Hastings, Hereford, Hull, Ipswich, Leeds, Leicester, Lincoln, Liverpool, London, Luton, Maidstone, Manchester, Newcastle upon Tyne, Newport (I.W.), Northampton, Norwich, Nottingham, Oxford, Plymouth, Portsmouth, Preston, Reading, Redhill, Sheffield, Southampton, Stockton-on-Tees, Southend, Swansea, Taunton, Torquay, Truro, Wolverhampton, Workington, York.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The meetings of The Accountants' Christian Fellowship for the winter session will begin with a reception by the chairman, Mr D. J. Ginnings, F.C.A., at 6 p.m. on September 20th, in the Oak Hall of the Institute, Moorgate Place, EC2. The reception will be followed by tea and afterwards there will be a short address by the Rev. Bruce Reed, M.A., TH.L., director, 'Christian Teamwork'.

As at all meetings of the Fellowship, members, their friends and any others who are interested will be most welcome.

CHRISTIAN TEAMWORK

During the past year a small group of members of The Accountants' Christian Fellowship has been meeting to discuss the application of Christian principles to problems which meet accountants in the ordinary course of their professional work. Groups from other professions are holding parallel discussions under the auspices of Christian Teamwork of 1 Whitehall Place, London, SW1. It is hoped that these discussion groups, working separately and jointly, may be used for the help of Christians engaged in accountancy and other professions. Amongst the subjects recently discussed were: 'What responsibility before God has the accountant for the actions of others?'; 'Problems arising from taxation matters'; 'Finance and investment: the

Christian viewpoint'; 'The Christian impact on the profession'.

If any member of the profession has a problem of Christian relevance which he feels could helpfully be discussed or would like to join the discussion group, he is invited to write to the secretary of the group, Mr W. E. B. Usher, A.C.A., at 1 Whitehall Place, London, SW1.

BUILDING SOCIETY INTEREST RATES

In a 'Weekly Note' in our September 3rd issue we said that building societies now had a slightly higher operating margin, at £2 10s per cent 'as a result of the recent mortgage rate increase from 5½ to 6 per cent with no increase in the investment interest rate of 3½ per cent'. The Building Societies Association have pointed out that the investment rate of most building societies did, in fact, rise from 3¼ to 3½ per cent last July and it was this increase, they say, which necessitated the increase in the mortgage rate.

Profits tax borne by building societies for the fiscal year 1960-61 has, of course, been increased by 2½ per cent to 12½ per cent, not 2 per cent to 12 per cent, as stated in the note.

GOLF**Students v. Senior Society at Liverpool**

In a match at Formby Golf Club, held on August 30th, the Liverpool Chartered Accountant Students' Association beat the senior society by three matches to one.

London Students

The Chartered Accountant Students' Society of London Golfing Society held its first general meeting at Coombe Hill Golf Club on September 8th. The weather was very kind and the course in excellent condition. In the morning a medal round was played and the afternoon round consisted of Stableford foursomes. The whole day was greatly enjoyed by the twenty-four members who attended. Leading scores were:

Morning

I. B. Richards	82- 8=74	W. Caldwell	86- 8=78
J. A. Keith	91-16=75	T. Webb	87- 8=79
M. B. Cappin	90-15=75	V. Headly	
R. King	77- 2=75	Lewis	93-12=81
D. Marriott	78- 3=75	L. Nahon	107-24=83
R. White	82- 5=77	P. Cusk	109-24=85

Afternoon

Webb and Dennett ..	34	Haynes and Newman	29
Caldwell and Afia ..	30	Cappin and Keith ..	28
Watson and White ..	29	King and Marriott ..	28

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Office Efficiency

THE forty-eighth national Business Efficiency Exhibition which opens at Olympia on October 3rd will be the biggest ever held in the United Kingdom. Its claim to importance, however, does not rest so much on size, which after all is always a relative thing, as on the fact that the office equipment industry at the present time occupies a unique position in industrial and commercial activity. This industry continues to have an impressive export record. Indeed, it keeps breaking its own records. It has a unique part to play in raising productivity, not least in the office and in the field between factory and office. And it is vitally concerned with the provision of better equipment - automatic and manual - for the closer operation of accounting and management functions. It is, in fact, on the theme of closer co-ordination of the work of office and factory that emphasis is being placed at this exhibition, and there is going to be much on show dealing with central control and central registration. Greater speed, greater accuracy and less drudgery, are all goals towards which the industry is striving, evidence may be seen at the exhibition, in the vast range of equipment, worth hundreds of thousands of pounds, from new types of pencil sharpeners to electronic computers. On other pages we give a 'preview' of some of the exhibits together with articles on topics within the broad field of office efficiency.

Such a variety of equipment, and in many fields so many alternatives to choose from, calls for a certain attitude of mind from the visitor to the exhibition, especially if he is responsible for an accounting or senior managerial function in his organization. He must be discriminating in the best sense of the word and he must have some initial idea of the kind of problems in his organization which further mechanization, visual aids, improved filing systems, and reformed internal or external communications systems can help to solve. The days are gone, if they ever existed, when casual sampling of the exhibits or fascination with gadgetry is an adequate frame of mind to tackle the question of mechanical aids to business efficiency.

As has been said, emphasis at this exhibition is on closer co-ordination of office and factory work. This is indeed an increasingly important field. Industry is becoming technically more complex. Quicker data are wanted for top-level decisions. Market, technology and the high level of capital costs are making production units bigger and financial groupings wider. This exhibition is therefore very much in tune with the times.

Charter for Office Workers

CONTRIBUTED

THERE are between five and six million office workers throughout Great Britain, and office work has been described as 'the Cinderella of the industrial life of the country'. While it is true that great advances have been made over the past fifty years in the working conditions of industrial and factory employees, the white collar workers in offices have been badly neglected. However, the new Offices Act, which received the Royal Assent on July 29th, will eventually bring about a substantial improvement in working conditions and amenities provided in every office throughout the country. It is therefore obviously important for every accountant who is responsible for an office, whether in private practice, in local government or in industry, to be aware of the purposes and provisions of the new Act.

Chequered History

The Act is something of a triumph for Mr Richard Marsh, M.P., who introduced it as a Private Member's Bill. In fact it is about the sixteenth Bill brought before Parliament in the last thirty-six years with the purpose of improving conditions in offices. Between 1923 and 1936 no fewer than eleven Bills were introduced, but failed to become law. Then in 1946, the Labour Home Secretary, Mr Chuter Ede, appointed a committee to make recommendations in regard to the health, welfare and safety of persons in non-industrial employment.

The Gowers Committee report was published in 1949, and contained a number of recommendations relating to conditions in offices, including ventilation, space, cleaning, and washing and sanitary facilities. The Government accepted the principles of the report, but took no further steps to implement them with legislation, on the ground that building resources were fully committed at that time, and economic circumstances made any changes premature. Dissatisfied with the Government's lack of activity, Mr Harold Davies, M.P., introduced a Non-industrial Employment Bill in 1955, which was unfortunately cut down by the General Election, and Mr Victor Yates, M.P., brought in his Office Regulation Bill in 1958, when it was 'talked out' by the Government spokesman who,

however, was in agreement with the principle of the Bill.

During the Parliamentary Debate on the new Act, the main emphasis was on bad office conditions in London and in Liverpool, where public health inspectors made a systematic survey two years ago, but there is no doubt that similar poor conditions can be found in some corner of every town in the country. Mr Marsh startled members by telling them that in the secretaries' room above the Debating Chamber, ninety girls had to share two lavatories, though another member later questioned the number of girls. Conditions in the Government offices in Whitehall and 'the rabbit warrens of the basement of the Treasury building' were also criticized.

There has, of course, been a great deal of new office building since the publication of the Gowers Report ten years ago. But overcrowding, for example, can occur in a new building just as easily as in an old one, and indeed a number of new office buildings have been put up which did not reach even the minimum standards laid down in the report. When the Queen's building at London Airport was completed in 1955, a trade union secretary complained that a number of the clerical workers were being 'housed in boxes devoid of light and air'. There was a strike extending over a number of weeks, because clerks refused to use the accommodation provided, and an additional £40,000 of public money had to be spent in introducing ventilation and an air conditioning scheme to the building.

Provisions of the Act

Coming now to a more detailed consideration of the provisions of the new Act, it will be noted at once that Section 1 gives the Minister power to proceed by 'delegated legislation', that is to say, in this case he is empowered to make regulations by statutory instrument for securing the health, safety and welfare of persons employed in offices. Some criticism was made in Parliament of this method of legislation, but not only has it been commonly used in the past for making regulations under the Factories Acts and for particular trades, but it is obviously most convenient in detailed and technical matters of this kind.

Section 1 indicates the scope of the regulations which may be made; they cover such matters as the provision in offices of sufficient and suitable sanitary conveniences, and of adequate facilities for washing, including hot and cold water, and soap and clean towels. Other matters dealt with are overcrowding, suitable lighting, reasonable temperature, adequate ventilation and the provision of supplies of drinking water, first aid equipment, and the means of escape in the case of fire. On the technical side, regulations may be made for the maintenance and inspection of electrical equipment and the fencing of dangerous parts of any machinery or equipment used in offices.

No detailed regulations under Section 1 have as yet been announced, but as the Act is not to come into force until January 1962, there is plenty of time for the appropriate technical details to be worked out and determined. The Home Secretary told the House of Commons just before the summer recess that the Government intended to bring in a more comprehensive measure of their own to supersede the Offices Act, but be that as it may, it is certain that any Government proposals would be at least as far-reaching as those recently approved in the Act.

Definition of an 'Office'

One of the major difficulties facing those who drafted the Act was to provide an adequate definition of an office. Should the Act, for instance, cover the place used by a tally clerk in a mill, or the place where the cash desk is kept in a garage or filling station? What about the temporary offices which are erected on building sites? The Act does allow the Minister to make provision to meet different circumstances, and no doubt a further examination of the various types of places which are used as offices may require provision to be made for exceptional cases.

However, the present definition given in the Act seems reasonably adequate and practical. By Section 2, the expression 'office' is to include 'any room of which the substantial use is for clerical work, including book-keeping, filing, typing, duplicating, machine calculating, drawing, the editorial preparation of matter for publication in print, the sorting and carrying of papers, telephone operating, and the handling of money'. Excluded from the definition is 'any room in premises of which the substantial use is as a private residence or for private domestic purposes'. In practice this would mean that an office on the ground floor of a block of flats would fall within

the Act, but not a room in a particular dwelling flat used by the occupant for professional or clerical work.

Section 5 of the Act provides that where any accident occurs in an office which causes the death of an employee, or disables him for more than three days, then the occupier of the office must forthwith send a report of it to the local authority in whose area the office is situated.

The Act also lays upon local authorities the duty of enforcing within their area the provisions of the Act, and in particular, any duly authorized officer of the authority may enter any office at all reasonable hours to make such examination and inquiry as may be necessary to ascertain whether the Act is being complied with. Those employers who are alarmed at the prospect of such an inspector having access to their private business affairs may take some comfort from Section 8, which provides that if the inspector discloses to any person any information obtained by him in the office with regard to the trade or business carried on there, he shall be guilty of an offence, unless the disclosure was made in the performance of his duty.

Where an office forms part of a factory, or of a mine or quarry, the inspection will be carried out by a Factories or Mines Inspector, as the case may be.

Office Property held on Lease

Another problem with which the Act has to deal is that arising where the office property is held on lease. If the premises are occupied under a lease, the tenant may be prevented by the terms of the lease from carrying out in the premises any structural or other alterations necessary for him to comply with the regulations made under the Act. In that case, he may apply to the County Court for an order to set aside or modify any terms of the lease, as the Court considers just and equitable in the circumstances. This is really quite a substantial innovation on the right to freedom of contract, but it was felt that if some such provision was not made in regard to premises held on existing leases, the Act would be ineffective in many cases. The tenant may also apply to the Court for an order concerning the expenses of the alterations for an apportionment thereof.

Effect of the Act

What will be the practical effect of the passing of the Offices Act, so far as employers and occupiers of offices are concerned? Whether or

not the Act is superseded by the Government's own measure, a pretty broad indication has already been given of what will be required. Although detailed standards have not yet been prescribed, occupiers of offices should at once consider the adequacy of their present accommodation. For instance, they may ask themselves: Does my office have suitable sanitary facilities, with separate accommodation for both sexes? Do I provide hot and cold water for washing, and also soap and clean towels, or some other means of cleaning and drying? Is my office reasonably warm in winter, and reasonably cool in summer? Are the rooms neither too stuffy nor too draughty? Is there somewhere where my employees can hang their coats and hats conveniently? Is there an efficient means of escape if the place goes on fire? Do I have any paper cutting guillotines or duplicating machines where an employee may injure a hand or a finger? These are all obvious matters which an employer can attend to now, without waiting for more detailed regulations to be approved.

Occupiers of offices should also start planning any structural alterations which may be necessary in connection with such matters as new windows for light and ventilation, or additional toilet or washing facilities. It may also be necessary to

make financial provision now for the outlays involved. If the office is occupied under a lease, it will probably be advisable to seek legal advice on whether the proposed alterations can be carried out within the terms of the lease, and if not, to instruct an application to the Court to enable the work to be done, and to have the expense of the alterations fairly apportioned. In view of all this, it should be clear that although the Act does not come into force for eighteen months yet, employers have plenty to start thinking about.

Fifty Years Behind

There is no doubt that, until now, office employees have lagged about fifty years behind factory workers in regard to protective legislation. It is true, of course, that working conditions in factories are inherently more dangerous. But at last Parliament has recognized that offices badly designed and equipped can also be a danger to health and safety. The Offices Act was described in Parliament as 'A new charter for the black coated worker', but as the Government has promised to consider more comprehensive legislation in future, the Act should be regarded as a mere beginning rather than an end of improvements in working conditions in offices.

Cost Accounting at the Cross-roads

III — THE PROBLEMS TO BE SOLVED

by KENNETH S. MOST, LL.B., F.C.A.

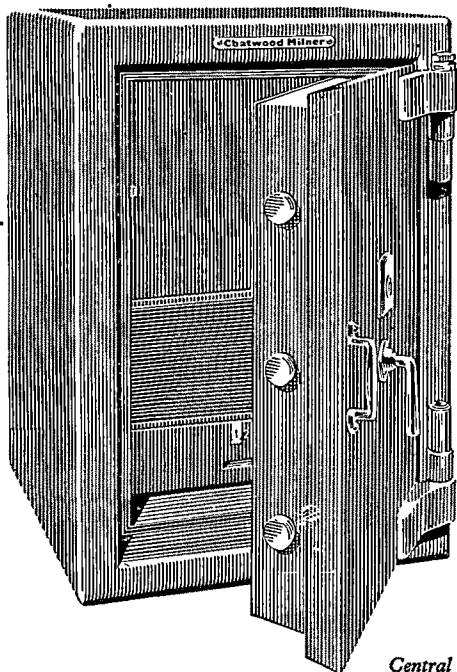
SINCE the period immediately following the First World War, a number of problems have occupied the minds of cost accountants. Most of these problems were known before that time, but the tendency was to regard them as arising out of particular business situations rather than as inherent difficulties affecting the subject as a whole. Some have been touched on in the preceding articles on theory and method; it is now proposed to consider them in more detail, together with others which are, perhaps, not so clearly apparent.

The Assumption that Price is a Constant

All figures entering the cost accounts represent purchases or sales, whether real or fictitious, at identifiable prices. Where these transactions are made with the outside world, price is a reality;

where they are not, as where one part of a business passes its product on to another part for further processing, then it is a fiction. But in neither case is price a 'constant', and prices fluctuate for a number of reasons.

Material prices vary under market influences, according to buying policies and efficiencies and for monetary reasons. Labour prices vary with political situations and economic conditions and according to production policies and efficiencies. The incidence of abnormal labour prices, such as overtime rates, may be quite haphazard. Expense prices, too, vary with economic conditions and are also affected by changes in volume, whether of production or sales. Selling prices vary principally under market influences, but may also fluctuate as a consequence of production or other policies.



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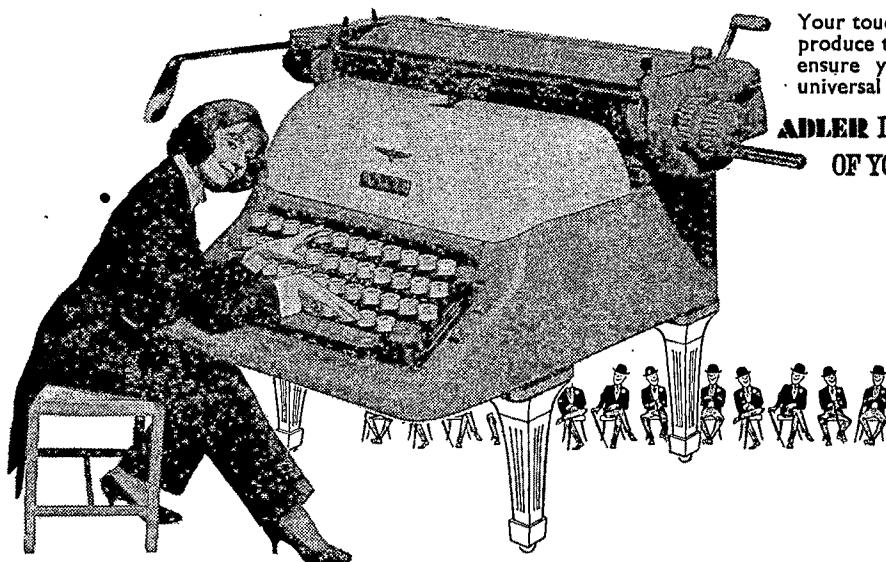
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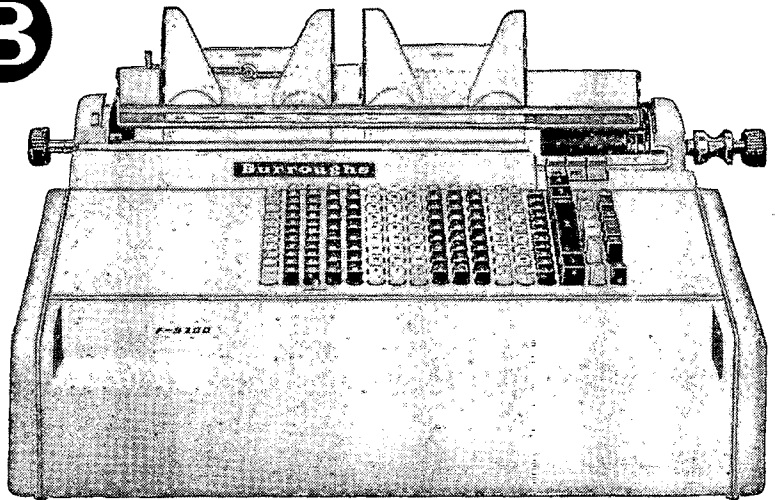
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These price variations affect the figures produced by the cost accounts to a serious extent. Where they are not eliminated by arbitrary means, a host of different practices obtain, among which may be mentioned, first-in, first-out (FIFO), last-in, first-out (LIFO), replacement cost, and a number of essentially different averaging methods. Where they are eliminated by the use of standard prices throughout the system, the accuracy of the results depends upon the accuracy of the standards, which is almost impossible to maintain for any length of time.

The Assumption that Operating Level is a Constant

Any method of cost ascertainment which proceeds by accumulating full costs, with or without the further step of dividing them by units of production to obtain a unit cost, assumes a constant level of operations. This is because part of the costs are independent of changes in operating level, either wholly (fixed costs) or in part (semi-variable costs).

Changes in operating levels cause fluctuations in full costs which do not correspond with any change in the relationship between cost incurred and effective performances. If a furniture factory with a capacity of 250 tables per week produces 150 tables one week and 200 the next, the different costs which will be calculated on the full cost basis are explicable by reference to the incidence of fixed costs.

The Assumption that all Costs are Utilized

If all period costs are charged to cost of production or cost of sales for the period, either directly or by means of an apportionment, then it is assumed that the products produced or sold during the period effectively 'contain' the costs incurred. This may not be true, since some of the costs incurred may have been wasted.

Where this waste is segregated by means of under-recovery or usage variance accounts, the question then arises whether it is chargeable to, say, cost of production, or whether it is a loss and chargeable to the profit and loss account. Some waste is regarded as normal, or an inherent part of the production process and thus forms part of the cost of production; its assessment must always be a subjective operation.

The Assumption that Expense is Measurable

Some expenses are performance costs, i.e. incurred on specific operations. Others are

capacity costs, the cost of creating and maintaining a certain capacity, whether of production, or administration, or sales. All should be capable of relation to some activity or other, whether capacity, operations or operating level.

A third group of expenses, however, is represented by those assets dealt with by the procedure called 'depreciation'. These arise from 'capital expenditures' or expenses for fixed assets, affecting a number of operating periods. The part of this expense attributable to a particular period is ascertained on the assumption that it is a function of time, or use, or a combination of both. The methods of calculation which are found in practice are based on these assumptions; straight-line depreciation is a pure time method, diminishing depreciation combines the time and use aspects, the machine-hour rate method is based solely on use. They lead to widely divergent results, often in respect of identical pieces of equipment.

The Assumption that Performances are Measurable

If a business starts and finishes a period with no work in progress, production of the period is exactly ascertainable. It may not be measurable in monetary terms, however. Where a business manufactures its own fixed assets, which must be valued by a pricing operation, the choice of one or other method of valuation may seriously affect the monetary measurement of production.

As soon as work in progress appears on the scene, it becomes physically impossible exactly to measure the production of the period. This physical impossibility has a dual aspect: the impossibility of ascertaining the quantitative content of work in progress, and the impossibility of valuing it according to the stage of manufacture it has reached. This simply cannot be done at frequent intervals, and even where inventories are taken at widely separated points in time, e.g. at the year-end, accuracy is usually more apparent than real.

For many businesses some such device as the '50 per cent assumption' must be accepted, i.e. all work in progress is assumed to be 50 per cent complete as to materials, labour, overhead or a combination of these. Where the business manufactures capital equipment or builds roads, houses, bridges or tunnels, even this device is unserviceable and a further problem arises. Relations with the public, e.g. the shareholders, may require a part of the profit, which will only be earned when the sale or contract is complete,

to be taken into the accounts of the period prior to completion, which can only be done by including it in the 'cost' of work in progress.

The Assumption that Joint Costs can be Separated

Where costs are capable of allotment to specific jobs, products, or batches, the ascertainment of cost appears to be plain sailing. As soon as costs fall to be apportioned, however, two questions arise:

- (1) Is there any utility in separating what are, in fact, joint costs?
- (2) If there is, then on what basis shall this be done?

Reference to the prevailing methods of costing joint products, where all costs are joint, is less than helpful. Most of them rely upon ascertaining selling price for the different products or assessing a gross profit margin for each, and they apportion costs in relation to selling prices or profit margins. In fact, for joint products, what appears to be a cost-finding operation is generally nothing more than a reconciliation between total prices obtained and total costs incurred.

From the point of view of controlling joint costs, it is felt that there is nothing to be gained from apportioning them, as distinct from ascertaining how and where they arise. The fact that certain costs will be taken over by cost centres other than those where they originate, has little effect in itself on the occurrence of those costs. It may actually conceal information necessary for cost control.

From the point of view of cost reduction, a *prima facie* case can be made out for apportioning joint costs in accordance with an accurately observed causal relationship. In order to reduce costs, one must first ascertain their level, and this can involve cost centres and products just as well as types of cost. But we have seen that this task of apportionment often ignores or blurs causal relationships and draws attention away from the more profitable occupation of reducing costs by type. Further, if fixed costs are apportioned, the resulting information will tend to be distorted against the purpose for which it is required, so that apportionment of joint costs should in any case be restricted to variable costs alone.

If we consider costing in relation to marketing and pricing, there appears to be even less ground for making apportionments. In very few cases do prices, or volume of sales, depend on full cost calculations, and when they are made dependent

upon this kind of information, the result usually affects the business adversely. The post-war period revealed many cases where profit opportunities were lost through failure to relate marketing policies and prices to supply and demand, a common practice being to base them on some sort of full cost plus mark-up procedure.

It is therefore chiefly for profit determination purposes that costs have to be apportioned. In the first place, profit measurement depends on ascertaining the cost of work in progress and finished goods, i.e. the labour, materials and expense, still on hand at the end of a period. In the second place, it is said that to know the profitability of any product or group of products, we must first find its cost. Quite apart from the validity of these requirements, it does not appear necessary to apportion costs on a day-to-day basis in order to fulfil them, and before doing it we should be quite clear about the effect of apportionment on the profit figure.

In this connection, it has been observed that to apportion joint costs which are period costs over production and sales is capable of falsifying the picture revealed by profit and loss accounts. It leads to overstatement of profit in times when business is bad (more costs being kept out of the profit and loss account by being included in work in progress and finished goods), and to understatement of profit when business is good (more of the costs of past periods being included in 'cost of sales' as finished goods are disposed of by sales).

Solving the Problems

The different objects of costing enumerated in the first part¹ of this study can be brought summarily under two headings: the measurement of efficiency, and the measurement of profit. Even the use of costs for price-fixing purposes can be brought under the second of these, since profit is thereby ascertained *a priori* instead of *a posteriori*.

To measure efficiency we must have an efficiency standard, and if efficiency is the result of a number of separate performances, we must have a standard for each – otherwise all we can do is to measure performances, as in 'actual' costing. It is to achieve this aim that engineers and cost accountants have invented standard costing.

Standard costing is a development of an earlier, and cruder, form of efficiency measurement using estimates. The difference between the two

¹The Accountant, September 10th, 1960, page 328.

methods is that a standard is objectively, and even scientifically, ascertained; indeed, as long as an estimate is based on anything other than objective measurement of an activity to be performed in the future, it can have little validity for measuring efficiency. The best standards are those calculated by engineering methods, such as those used in the efficiency plans of production engineers. Even where these are not available, however, as in the administration, selling and distributing activities of a business, it is possible to develop time and quantity measurements to serve as standards.

To measure profit and profitability we must face the fact that the fixed overhead costs of a business are incurred in relation to capacity and not to activity. They are unaffected by changes in the level or mix of operations and cannot be assigned to units of output, or even to parts of the business, with any accuracy. These joint costs are incurred in order to produce the optimum sales figure which must be greater than total cost if a profit is to be earned, and

'the only accurate measurement of the effectiveness of an individual segment of a business is its net income or contribution to the mass of joint costs which comprise the fixed overhead cost'. (Blocker & Weltmer, *Cost Accounting*, McGraw-Hill, 1954, page 453, discussing direct costing.)

This, then, is the theoretical basis of marginal or direct costing, which offsets against each group of sales revenues, the variable costs incurred in earning them and charges the fixed costs in total (i.e. unapportioned) against the 'net operating margin' or 'contribution margin' achieved by all.

A corollary of this approach is that period costs are charged to the period for which they were incurred and the stock of work in progress and finished goods is valued at its variable cost content only, which usually covers direct labour, direct materials and direct expense.

Standard Costs and Efficiency Measurement

To fulfil its object of efficiency measurement, standard costing must observe one overriding principle: the standards themselves must be accurately calculated. In many cases where it is used, however, the calculation of cost standards leaves much to be desired.

First, it is obvious that the standards set must be related to prices prevailing and operations being performed in the period of cost ascertainment. We have seen that prices vary for a number of

reasons, and the isolation of price-variances by itself tells us little about buying or rate-fixing efficiencies. It may tell us something about price trends, but we can find this information in a number of external statistical sources. Operations vary even more; the changes which may take place in apparently routine manufacturing situations are endless: new machines are introduced, short-cuts discovered, product specifications altered, length of runs changed, plant layout varied, and so on. Now, setting standards is a long and expensive undertaking, changing them a task which is universally abhorred. It frequently happens that standards set three months ago are of little applicability to current circumstances.

Attempts are made to overcome this difficulty by various adjustment procedures designed to eliminate the effects of changes in conditions before isolating usage or efficiency variations. These procedures are often clumsy and time-consuming and frequently confusing; the most that they can do is to mitigate the effects they are designed to counteract.

Secondly, the basic inaccuracy of all apportionment undermines those standard costing systems based on the full costing procedure. How often do we see a standard cost sheet which carefully itemizes and evaluates material, labour and other costs capable of accurate measurement, and then proceeds to add 'manufacturing overhead', 'administration overhead' and 'selling and distribution overhead' at so much per unit produced? And how often do we look at other standard cost sheets in use in the same business only to find that identical unit costs are being used for these three types of overhead, although the products or operations themselves vary considerably one from the other? Flexible budgeting, again an attempt to resolve this problem, is a palliative rather than a cure.

Marginal Costing and Profit Measurement

The use of marginal costing methods in a standard costing system may be assumed to answer the criticism contained in the last paragraph, but marginal costing itself is dependent upon the accurate classification of costs into 'fixed' and 'variable', and the careful evaluation of those which must be classed as 'semi-variable' (or 'semi-fixed'). This is no easy task.

Anyone who has ever tried to sift the different types of cost incurred by a business in relation to their tendency to vary or be fixed, will know that assumptions have to be made at every step.

A simple example can be cited as an illustration – that of direct labour. This is normally regarded as a fully proportional cost, i.e. one which varies in direct proportion to changes in the level of operations. But is this true? Most businesses are flexible organisms and this hypothetical straight line is easily changed into an upward or downward curve; given tactful leadership, an extra ten and even twenty per cent output can be achieved with an unchanged labour force when business is good or when a specially urgent order must be finished and dispatched. Such differences are highly significant in terms of cost and profit.

Further, as work study and production engineering develop, scope for the operative's initiative and personal efficiency dwindles. The tendency, therefore, is for capital-intensive businesses to move away from piece-rates and to return to time-rates for the payment of labour, perhaps with some form of group bonus or profit-sharing arrangement. In large factories, the direct labour cost may be as fixed as its depreciation, looked at from the practical rather than the theoretical standpoint, failing to reduce as production falls short of capacity and displaying unpredictable variations when capacity must be exceeded from time to time.

In spite of this criticism, marginal costing is a compromise solution to the problems examined; it affords considerable scope for economy of clerical effort, and makes possible the production of certain types of vital information which is otherwise difficult to prepare, such as the lowest price at which an order can be accepted in order

to fill unused capacity, or the respective contributions of two alternatives to fixed overheads and profit. It does not, however, provide us with the full cost of the product or service produced, and as we began our analysis by asking, the question is whether this is, in fact, the purpose of costing.

A diagrammatic presentation of a marginal costing system might look like this:

Type Accounts	Cost Centre Accounts	Product Accounts	Cost of Sales Accounts	Profit and Loss Account
VARIABLE COSTS				
Materials	→	(1)	→	
Labour	→	(1)	→	
Expense – production	→	(1)	→	
selling	→	(1)	→	
		(2)		
FIXED COSTS				
Labour	→			
Expense – production	→			
selling				→
admin.				→

(1) Either proportionally variable or incurred specifically for the product.

(2) Must be apportioned – generally, by finding out what the total would be at varying levels of activity, or by calculating a suitable base for incorporating in product costs.

(To be concluded.)

PRACTICE ORGANIZATION – III

Filing and Copying

by R. S. WALDRON, F.C.A.

IT is essential that the same sense of system previously emphasized in dealing with audit records should extend to the underlying office work on a more general plane. This planning is a desirable factor in the efficient functioning of any office; it is a vital requirement of the professional office where service to clients is the first consideration.

If the filing system is slipshod in design or operation, valuable time will be lost at the level

where time matters most, vital information will not be readily available and considerable frustration may be felt by all members of the staff.

Simplicity

It is not, however, a prerequisite of efficiency that a system needs to be complicated. The simpler a system is, the easier it is to maintain. A first step is to divide correspondence into its natural compartments, e.g. audit and account-

ancy, taxation, secretarial, etc. Because of their irregular occurrence in most offices, investigations might be included with audit and accountancy for this purpose. Then, if suitably contrasting colours of copy-paper are used for the various sections, each client having a file of the same colour under each heading, given reasonable care and attention in filing, no letter ought to be misfiled. Elaborate systems involving numerical identification of the files should hardly be necessary in other than large offices.

It is axiomatic in every office in the profession that I know, that no document should ever leave the office without being copied. Where printed forms or returns are involved, it is usually possible to obtain copies of such forms in blank at comparatively modest cost, certainly more cheaply than the expense of a typist spending time copying the headings and descriptive matter. Where, owing to differences in 'register' or for any other reason, it is not possible to use a duplicate form for carbon copying, it is advisable to take a carbon copy of the entries made on the original form to accompany the office copy of the form.

Mechanization

However, with the growth of mechanization, even the small office might well consider whether the real answer to the problem of copying is the purchase of a machine for this purpose. There are many types available for office use, with varying advantages – and, of course, disadvantages. It is wise to test a selection before deciding on one, special attention being paid to simplicity of operation.

Some of the copying machines on the market are not suitable for the reproduction of clients' accounts – indeed, they are not intended for such a purpose. These normally copy documents in black print only, colours being ignored. Reproduction of reports and accounts, therefore, tends to be dealt with by direct typing, using carbon paper for copies if the number required is small, or, for larger numbers by duplicating from a stencil or a 'master' copy, coloured lines or figures being added by hand or as a separate machine operation. With certain more expensive machines it is possible to reproduce with colours at one operation, but with most, the use of colours involves the use of separate 'runs' through the machine and the cleaning of the 'inker' after each 'run'. A point which is worth bearing in mind is the improvement, in even single-toned duplicated work, if a good quality paper is used for the reproduction.

Protection

For reports, where normally a number of copies will be required, duplication by machine is the obvious solution. An important point here is the choice of cover. Accounts and – probably to a greater extent – reports are subject to frequent reference by directors, members, managers, etc. Consequently the covers chosen should be serviceable ones while at the same time of pleasing design. No covers are cheap, but a really good cover costs proportionately little more and impresses the client. Some offices adopt their own distinctive type and colour; white or cream covers look clear and clean, although these tend to soil easily – if not in the accountant's office, then in his client's. Office copies should be in a contrasting colour of equal quality. Really thick reports will, of course, require appropriately stout covers, and it may be worth considering whether, within the budget of expenditure on detailed reports (which in general do command a reasonable fee), it is not possible to devise some special form of cover of really durable quality.

Storage

The filing of office copies of accounts and of spare copies, as well as those intended for Inspectors of Taxes and the Special Commissioners (for surtax clearance purposes) also requires consideration. As frequent reference to these is likely in connection with the preparation of tax computations, filing of annual returns, etc., although not perhaps 'clothed' in quite the same style as those circulated to clients, they should certainly not be too easily damaged in storage. Suspension filing, whilst affording easy access, should therefore include some form of rigid supporting cover for each group of accounts.

In all filing of documents, whether of correspondence, accounts or reports, care must be taken to 'weed out' periodically all items which are 'non-current'. Those to which occasional, but regular, reference is still made may be transferred to interim files of some kind and those to which further reference is unlikely, to some system of permanent storage.

The ultimate disposal of documents may sometimes devolve on a client's instructions, depending perhaps on the legal ownership of the particular papers. Here again there is need for a regular review of the items stored away so as to maintain order in the storeroom. It is, of course, possible to economize on space by the use of microfilm, and this may be the answer to the space problems of many practitioners.

Financial and Office Management

by A. W. HOWITT, M.A., F.C.A., F.C.W.A.

SINCE it is because I am a practising accountant that I have been invited to present this paper, I should like to start by saying a few words about the accountancy profession. The profession stands, I think, at a vital point in its career; it has either got to make considerable changes in its outlook and activities or, ultimately, lose some of its status. The standing of the profession is extremely high today, but in recent years there has been some criticism concerning certain weaknesses that have become apparent in its very foundations. These alleged weaknesses have centred round the apparent inability of many professionally trained accountants to look forwards instead of backwards.

One frequently hears it said – and not only by accountants – that to go into a professional accountant's office under articles is a magnificent training for a young man; that it fits him for any field of industry or commerce that he subsequently wishes to enter. And so it should and frequently does, but there are, at present, substantial limitations to this training from the viewpoint of fitting a young man to be a financial or cost accountant in industry.

A very large part of a normal professional practice consists of doing audits, agreeing tax computations, and carrying out financial investigations. For this work, professional training can probably not be bettered, but it is almost entirely dealing with the past and not the future. Until recently this has not mattered; industry was and in large part still is, happily oblivious of the future, and professionally acquired accountancy techniques were adequate for holding down a post in industry. A large proportion of those entering articles will, within three years after qualifying, enter industry; some will take up secretarial posts and may continue to use their company law, their commercial law, their executorship law and their taxation. These skills, however – even taxation – are not required by the great majority of financial and cost accountants.

If the profession is to be considered as responsible for training accountants for industry – and I do not

necessarily say that it is – then the syllabus, in my view, contains far too much law; but this law is required for professional practice. This then is the dilemma of the profession; since the more go-ahead section of industry has realized the need for more advanced and useful accountancy – and the more

go-ahead section of the profession is every bit as much aware of it – the field which should apparently be covered by professional examinations has become almost impossibly wide. The leaders of the profession are well aware of this problem and have it under very active consideration.

Apart from too much concentration on law, professional training involves – from the industrial viewpoint – far too much detailed ticking and slavish and meticulous accuracy. Application to detail and accuracy are, on the right occasions, great virtues and it is impossible to teach a young man the essentials of accountancy without, in the early days of his training, insisting on them. Unfortunately, not all accountants later come to appreciate that most accounts are not 'accurate' anyway – because of the relatively great

uncertainties in stock valuations – and that it is therefore ridiculous to insist on small accruals and adjustments.

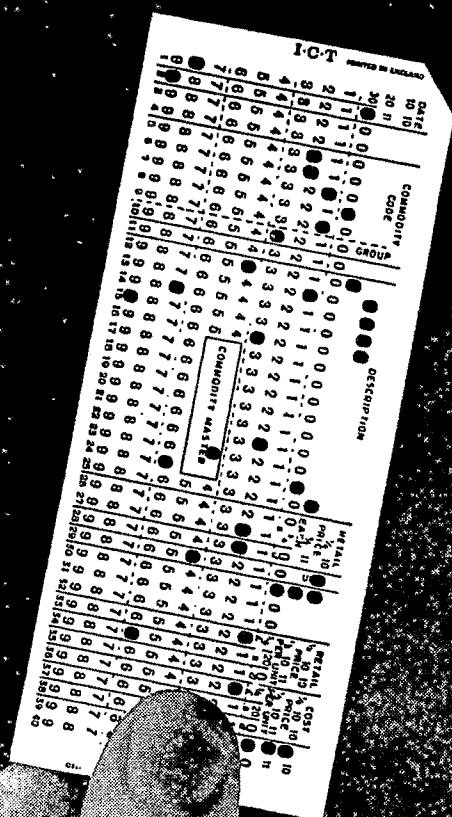
But far and away the greatest drawback of professional training – regarded, I stress, as training for a financial or cost post in industry – is that it is based on auditing, and auditing means looking backwards on a year's results – usually several months after the end of the year. Audited accounts, in what might be termed normal Companies Act form, are a vital part of a practising accountant's work and a great safeguard to shareholders; but they are out-of-date, historical documents; of value, no doubt, for the archives, but not of the least value as a tool of management. Too many professional accountants, it is to be regretted, do not appreciate this basic fact.

If the profession is to retain and, I hope, increase its prestige in this country as the best training ground for accountants in industry, it has got to revolutionize its thinking, so that it looks forwards and not backwards. This is going to necessitate changes in the syllabus, possibly involving less law, but certainly



Mr A. W. Howitt

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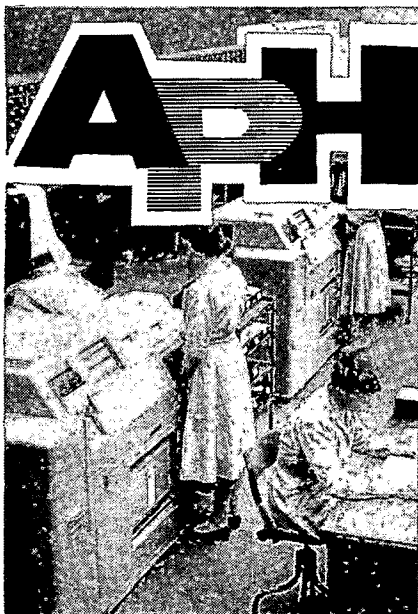
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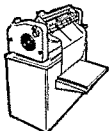


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The Accountant in Industry

Now let us turn to the position of the accountant in industry. The majority of accountants in industry have previously been in professional offices and, as things are today, needed to perform a volte-face when they entered industry—to cease looking backwards and to start looking forwards. Industry contains a number of accountants who have failed to make this change.

The prime requirement of an accountant in industry is to realize that his task is to render a service to management—to help management to run the business more efficiently and more profitably. Any idea that accountancy is an end in itself, or a skilled mystique to be practised in seclusion, must be unceremoniously debunked and thrown out. The accountant is ideally placed to render service to management. He sits at a main cross-road of a business, so that very little can happen without him, sooner or later, becoming aware of it; and the sooner or later aspect of it largely depends on himself. He is thus in a position to play a major part in co-ordinating the various activities of a company, and it is co-ordination that is all too often lacking.

Need to Learn about the Business

In order to play his part the accountant must, first and foremost, learn as much as he can about the business—not about the accountancy; everyone will take it for granted that he can handle this, until he shows that he cannot, but about the product, its development and production, the selling and purchasing organizations and problems, and research for the future.

He must try to get to know everybody else's problems, in order that he may best be in a position to help. He must learn to speak their language and try to talk accountancy jargon to them as little as possible—they have enough of their own jargon without worrying about any more.

Disadvantages of Centralization

This need to get to know and to mix with the other executives of a business is a strong argument against centralization of an accountancy function in the name of clerical economy. This is not to say that purely clerical operations, carried out by mechanical or electronic means, should not be centralized, but that the interpretation and discussion of figures should take place on the spot and at the lowest level possible.

Place of the Cost Accountant

This matter is particularly important with costing. Let there be no doubt—the proper place for a cost accountant is in the factory, and not miles away under the wing of a chief accountant. The cost

accountant's real boss—in terms of whom he is serving—is the factory manager, and not the finance director.

It is quite frightening how often I meet a cost accountant who has not been in the works for years—if at all; it is worse still when one meets, as one does, cost accountants who are not allowed in the works without getting specific permission, which will only be grudgingly granted. The financial accountant and the cost accountant should spend most of their time outside their own offices and they should be welcome visitors wherever they go; if they are not, someone is not doing his job properly.

Partaking in General Management

Only if an accountant develops the attitude of mind that I have outlined can he do his job properly, and only then does he stand a reasonable chance of having his efforts recognized by being given an opportunity to take part in general management; and this should be the ambition and aim of every capable accountant.

The title of this talk was divided into two sections—financial management, and office management, and I should now like to consider these in turn.

FINANCIAL MANAGEMENT

The duties of financial management may be condensed into 'seeing that the necessary funds are available and that they are suitably employed'. In more detail, it involves matters such as contact with financial consultants, finance houses and auditors; dividend policy, depreciation and replacement of fixed assets; and the responsibility for the safe-guarding of the company's assets by suitable book-keeping procedures.

This side of financial management tends to be veiled in a lot of mumbo-jumbo and secret know-how; its importance is in many ways over-estimated, and it occupies far too great a proportion of the time of many top-level financial executives. Instead, they should devote more of their energies to budgeting and long-term planning, to calculation of the return on capital invested, to providing management with suitable information, and to educating management.

Budgetary Control

The hub of their duties should be the operation of a suitable system of budgetary control. There is a tendency for budgetary control to be linked with standard costing, which in its turn is linked, in most people's minds, with large concerns. It is true that standard costs cannot, in effect, be operated without budgetary control, but the reverse is nowhere near the truth.

Budgetary control can—and in practically every instance should—be used whatever the costing system in operation, and whatever the type or size of the business concerned. To say that you cannot or will not operate budgetary control is tantamount

to saying that you cannot or will not plan for the future. If you will not or feel you cannot do that, then you might as well pack it in. I know that certain businesses are more difficult to budget for than others, and that certain aspects of a particular business may be more difficult than others. However, a lot of people who say that they cannot budget have never really made the effort; they are suffering from mental inertia, even mental laziness. If they will only make the effort, they will find the task not only easier than they feared, but also a most valuable exercise and source of information.

Comparison with Budget, not previous Year

Far too many companies assess their results of this year against those of last year. This is largely the result of the Companies Act, which forces you to display comparative figures for the previous period, and goes back mentally to the days before budgeting was invented. It is far more appropriate to set out the actual results alongside what was planned for or budgeted.

Preparation of Budgets

A lot of thought has to be devoted to the preparation of budgets, particularly the first time it is done. This is not a detailed talk on budgetary control but, as an indication of the work involved, decisions will be required on matters such as:

How far ahead is the budget to plan?

In what periods of time is it to be built up?

How much detail is required?

What is to be the basis for the figures – do not use 'last year plus 5 per cent'.

Who is to prepare it, and who is to agree it?

It is essential that the budget should be made up in suitable sections or spheres of responsibility, and it is essential that the expenses which a man can control should be separated from those which he cannot; there are arguments for and against showing on a man's budget items which he cannot control but which have been incurred on behalf of his department. If you do show them, it may detract from his interest in the controllable items; and if you do not he may not sufficiently appreciate the total costs of his department.

Costing

Budgetary control should normally – but not necessarily – be linked with some form of costing. The particular form of costing needs deciding upon in the light of the facts of the particular business. It certainly need not be standard costing in the generally accepted sense, but it almost necessarily involves some setting of standards, whether these be called estimates, budgets, forecasts or standards. The essential aim is that all transactions should, where possible, be pre-costed and not just post-costed. Pre-costing involves proper planning of a job in the most efficient and economic manner;

without it, post-event costs, or historical costs, are of little use as an aid to management.

The Object of Costing

The object of costing must be clearly understood – it is *not* the keeping of sufficient records to enable year-end accounts to be drawn up to the satisfaction of the management and the auditors. The real object of costing is to increase profits and efficiency by controlling costs as they are incurred.

Need to be Tailor-made

It follows that the system must be designed so as to be of the maximum use to management. This means that it will have to be tailor-made, not only to the particular industry and business, but also to the individuals concerned. One man likes his facts and figures produced in one way, and another in a different way. Within reasonable limits they must both be humoured. The cost accountant can produce figures in his own way to satisfy himself, but he must then consider how others will want them and how he can present them in the best manner to have the maximum impact on the various managers.

Avoiding Excessive Standardization

It follows that excessive standardization of output from the cost department can be undesirable. Quite apart from meeting individual requirements, it may be better to alter the presentation of figures when a particular feature needs to be stressed, and even to alter it for the sake of a change, which often evokes fresh interest.

Avoiding Excessive Accuracy – Need for Speed

Cost accounts should be no more accurate than their intended use requires, or than the figures justify. Too great attention to accuracy is a major failing in many accountants, particularly where it results – as it invariably does – in delay in the presentation of management information. The broad picture at an early date is frequently the vital factor; the 'accurate' picture some time later may be altogether too late for any remedial action to be taken. This is true of any type of costing or management accounting, and is all too often overlooked. Post-mortems are all very well in their way, and may reduce the number of future deaths, but they do not do anything to prevent those particular victims from dying.

Allocation of Overheads

The over-ambitious allocation of overheads to products or cost centres is a particularly common cause of delay. Such allocations may be essential as an occasional exercise for a particular purpose, but it means little or nothing in terms of day-to-day control. It is the direct expenditure on materials, wages, and machine hours that matters and which must be known, and acted on, at the earliest opportunity.

Estimating and Costing

All too often a business has an estimating department and a costing department, and never the twain do meet. So often, actual costs are never compared with estimates and there is no 'feed back' of information from costs to estimates. Why record costs if you are not going to make any use of them? This is a fundamental question. If you cannot persuade a man to use costing information – and I hope you can – then persuade him to give up having it prepared.

Management Accounting

A vital part of the cost accountant's duty is to educate management in the use and interpretation of costing information. This may be a long and difficult process; it is none the less essential that it be done, and it requires qualities of tact and understanding which are not required in the obtaining of a professional qualification.

I have referred so far largely to budgetary control and costing rather than to 'management accounting'. I do not like the latter term as it implies that there is some other form of accounting which is worth practising. If this other form is said to be financial accounting, then it is my claim that the financial accounts appear easily and quickly from a good system of management accounting, consisting of budgeting and costing. For those who are interested in this subject, I strongly recommend, as a first step, the two excellent booklets published by the British Institute of Management entitled *Accounts for Management*, prepared by Mr F. C. de Paula, and first published in 1955, and *Increasing Profits in the Smaller Business*, which was issued early this year.

OFFICE MANAGEMENT

Now let us turn to the office management aspect of this talk. There has in recent years been a tremendous growth in the number of posts entitled 'office manager', and the holders of these posts have taken over a lot of work previously considered to be the province of the chief accountant. A great many of these posts are not occupied by qualified accountants.

The tendency for men with no professional qualification to fill these posts has been partly due to the shortage of qualified accountants, and the increase in the general level of financial or book-keeping knowledge. It has also been due to the limited ability of professionally-trained accountants to hold such posts. A very limited financial knowledge is required to prepare a payroll, to keep a stock ledger, or to send out sales invoices. But very considerable administrative experience and knowledge of systems may well be needed. This fact has, in the past, been too often overlooked, with resultant chaos or at least inefficiency and loss.

The qualities required of an office manager will, to some extent, depend on the remainder of the management structure, in particular on whether or not there is an organization and methods department

available to assist him in designing and installing the necessary systems. He will, in any case, require the ability to organize and manage; this carries with it, inevitably, the ability to train and delegate.

It is normally the case, where trouble in the office arises, that the manager has not learnt to manage; this means that he is wallowing in detail and that he has not trained a second eleven to whom he can, and is prepared to, delegate the necessary authority to let them do their task properly. All too often what at first sight appears to be an accounting, clerical or systems problem turns out to be a management one.

Management Training

I do not intend to dwell on how the general skills of management can be acquired; that is, after all, one of the prime reasons for the existence of the B.I.M. I will, however, indicate my general views, with which, I am fairly safe in saying, not everyone will agree.

I do not believe that too much attention should be given in the early days of a man's career to what I would term 'management in the abstract'. I think that management education should be a continuous – and, dare I say it? to a large extent an unseen and subconscious – process that moves in step with a man's experience, and is not something that he should study deeply at school or university before he sets out on his career.

To some extent I view management education in the same way as I regard the teaching of the grammar of a modern language. In my opinion, the first step should be to encourage the pupil to speak the language, regardless of the grammar. In the process of trying to speak, the pupil will encounter certain difficulties, the answers to which, he will realize, can only be found in a study of the grammar, which will thus become of real interest to him. In the same way, a man who has started out on a career will rapidly – if he is of good material – realize that management has its problems, and it is at that stage that he should make a study of the matter.

I, personally, am very distrustful of young men who want to study management before they have shown that they can carry out a technical job adequately. I tend to suspect that they are 'airy-fairy' types who are reluctant to get down to a job of real hard work.

Staff Problems

Job Specification

One of the main managerial problems is that of staff; but it is necessarily preceded by, or at least interwoven with, that of organization. Before you choose your staff you have to decide what jobs they are to do. This involves the preparation of a suitable organization chart which cannot be viewed in the abstract, but must take into consideration the staff you already have. It therefore involves an element of job

specification, both of the job and of the qualities of the staff required to fill the job. The detail into which this specification goes necessarily depends on the size of an organization, but it is, in some form, inherent in the selection of staff for any job.

Office Accommodation and Morale

Careful and continuous attention needs to be given to the morale of an office staff. Perhaps because few of them are organized into unions, it seems to be considered by many employees that office staff will be content and efficient while working in singularly unattractive surroundings. While far from saying that all offices should be palatial, it is noticeable that office difficulties are frequently to be found where darkness, old paint and dust abound.

Pay, Promotion and Prospects

Morale is also closely linked to pay, promotion and prospects. This is also a personal problem; to some people an extra 10s now is more important than distant prospects of promotion. Others are more interested in the long-term view, but this is no excuse for underpaying them now. Within the office, as well as elsewhere in an organization, it is essential to be planning ahead and for this to be apparent to the staff; dead-end jobs are popular with very few, and result in heavy staff turnover.

Training

Proper training of accounting and office staff is essential, and this must be a continuous process; it occupies time – both of those at the higher level who plan and organize the training, and of those below who are being trained – but it pays dividends. An office that does not train becomes inbred and stagnates. While it is essential to have adequate prospects for promotion from within, it is also desirable to bring in new ideas from outside by suitable recruitment at all levels; this is a difficult balance to hold. Even more so, it is essential that office staff should keep abreast of modern developments; they should be encouraged to study, to read widely, to attend suitable conferences, and to take appropriate qualifications.

Organization

The basic organization of the office will require much thought, and will be closely linked with staff development plans. It may be desirable to create certain new posts, largely with the object of giving certain people the experience of management. There may be problems of centralization or decentralization to contend with.

Decentralization may give departmental managers more authority and better training in management and may bring them closer into contact with those with whom their work is primarily concerned. On the other hand, decentralization may bring about increases in cost, through duplication of records or inability to employ the best form of mechanization;

and it may result in a lack of co-ordination, through no one man being able to see the whole picture clearly.

Service Departments

This problem is often met in the shape of whether or not to set up a service department to operate a punched-card installation. Discussions – if not arguments – then arise about to whom the service manager, who is providing a service for several departments, should be responsible. The major user invariably wants to have control, but it is normally better for the service manager to be responsible to an independent chief. Certainly the dividing line between the duties of the service department and those which it serves needs to be carefully and distinctly drawn.

Organization and Methods

Consideration of organization leads one to another field with which office management is vitally concerned – organization and methods, or O. & M. The formation of O. & M. departments is becoming increasingly popular among the large and medium-sized firms, and there is an increasing interest in the recruitment and training of suitable staff for these departments. The O. & M. Training Council is evoking considerable interest, and is running training courses on which many well-known companies have sent staff. Of the vast majority of O. & M. departments, it is fair to say that they are really concerned with methods rather than organization, and that 'office systems' might be a better description of their work.

The office manager, no matter of how small an office, will need O. & M. He will need the correct outlook himself – which largely amounts to a determination to have now, and in the future, the best and most economic systems, having regard to all the circumstances of his company. The extent to which he, or his staff or a service O. & M. department, need detailed skills will depend on his particular problems. These skills are not easily acquired and they are not necessarily to be found in accountants. (One well-known and colourful O. & M. head goes so far as to say that no accountant can do such work. The gentleman concerned is not, of course, an accountant, and the allegation betrays an ignorance of the many accountants doing a first-class job in this field in industry.) But an O. & M. team is ideally composed of a number of persons from widely different backgrounds, working together as a team. They must work as a team not only among themselves, but also among the departments which it is their job to serve; these departments will include those of the financial and office managers.

In the course of this paper I have tried to cover a very wide field and have necessarily skipped too lightly over many matters. Financial and office management have many aspects, and the study of them can be very rewarding to the success of any business.

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

UNITED STATES

What Accountants Think of Accounting

SOME interesting statistics are quoted in an article in *The Journal of Accountancy* for August entitled 'What accountants think of accounting'. The article is based on a survey of accounting graduates of the University of California, School of Business Administration, for the years 1945-46 to 1956-57. The survey showed that 33.9 per cent of those questioned entered the accounting field because they understood that accountancy would open the doors to other responsible and well-paid opportunities in business, industry, government, etc.

Of those who graduated from the university, only 44 per cent had sat and passed the C.P.A. examinations, and only 24 per cent of these graduates had passed all papers in the C.P.A. examinations at first attempt. Graduates made their best examination showing in commercial law and their worst in auditing.

Part of the survey was directed towards determining the median net income of the graduates. The results showed that in four of the first five years after graduation, graduates engaged in occupations other than public accounting had a higher net income than graduates engaged in public accounting. After the fifth year, however, the pendulum had swung the other way, graduates in the public accounting field had a pecuniary advantage over their fellows in commerce.

A series of questions sought to determine whether graduates were satisfied with their employment and whether their occupational aspirations were being realized in their current employment. The vast majority of graduates were happy with the field of their choice; indeed, 97 per cent of the graduates in the public accounting field and over 90 per cent of graduates in commerce were satisfied.

CANADA

Montreal and Boston Stock Exchange Link

THE first moves have been made towards an association between the Montreal and Boston Stock Exchanges. The members of these exchanges are to have access to each other's trading floor through the medium of a trader employed by the exchanges. Through a direct wire service linking the

two centres, it will be possible for brokers to execute their clients' orders in the other country without using another broker as an intermediary.

Since the end of the Second World War, Toronto has emerged as the principal stock exchange in Canada, a position previously occupied by Montreal. Linking up with the Boston Exchange is the latest in a series of moves designed to restore the Montreal Exchange to pre-eminence.

A substantial volume of business already exists between the two countries. At the moment, much of this business is channelled through Toronto to the New York and American Stock Exchanges. Montreal is now making a determined effort to capture a larger share of this business.

INDIA

Safeguarding the Shareholder

THE control exercised by shareholders over their companies is theoretical rather than real. This fact, observed upon by the Cohen Committee in the United Kingdom and the Millin Commission in South Africa, also causes concern in India and is the reason for a pamphlet entitled *The Present and Future Role of Shareholders' Associations in India* written by Doctor Raj K. Nigam, Director of Research and Statistics in the Department of Company Law Administration of the Ministry of Commerce and Industry in New Delhi. The paper is published by the Department, though the views expressed are the personal views of the author.

Having discussed the legal protection given to shareholders and their actual position *vis-à-vis* the companies of which they are members, the author concludes that, while legislation may give power, it is for the recipient of the power to know how best to exercise it for his own benefit. Since time and distance – quite apart from the general lack of initiative and inertia – usually prevent shareholders from attending the general meetings of their companies, where they can take part in deliberations and exercise their fundamental rights, and, in any case, many have not the knowledge and experience to exercise those rights to their best advantage, the answer to the problem lies, in the author's view, in well-organized and effective associations of shareholders. At present there are few such associations in India. The author's scheme for putting new life into those that exist and using them as a nucleus for a chain of associations throughout the country is contained in the last section of the booklet.

Weekly Notes

The Institute's Summer Course

NEARLY 300 members of The Institute of Chartered Accountants in England and Wales attended the fourteenth summer course at Oxford which concluded last Tuesday evening. The course was presided over by Mr S. John Pears, F.C.A., President of the Institute, and the Vice-President Mr P. F. Granger, F.C.A., and the Chairman of the Summer Course Committee, Mr P. F. Carpenter F.C.A., were also present. Members were resident in Christ Church (where meetings of the whole course were held) and also in Pembroke College for the first time, as Merton College was not available this year.

The course was opened on Thursday evening of last week by the President and his welcoming address was followed by a short talk on the history of the two colleges by Lieut.-Col. D. V. Hill, M.A., Steward of Christ Church. On Friday morning the first paper was given by Mr D. D. Rae Smith, M.C., B.A., F.C.A., on 'Auditing: the purpose and its attainment'. Mr J. Perfect, F.C.A., gave the second paper on Saturday morning on 'The Organization of a practising accountant's office', and the third and final paper entitled 'Retirement benefit schemes' was presented on Monday by Mr J. H. H. Nuttall, F.C.A. Informal talks were given on Sunday evening by Sir Joseph Simpson, K.B.E., Commissioner of Metropolitan Police, and the Rt. Hon. Ernest Marples, P.C., M.P., F.C.A., Minister of Transport.

The course was divided into fifteen discussion groups and the group meetings again proved a most valuable part of the course. Questions raised during the discussions were put to the various speakers at a separate meeting held each day. As in previous years, the afternoons were left free and members took the opportunity of visiting places of interest in or around Oxford or of playing golf. Among those present at the guest night dinner held on Monday evening were Mr T. S. R. Boase, M.A. Vice-Chancellor, Oxford University; Mr R. B. McCallum, M.A., Master of Pembroke; Sir Folliott Sandford, K.B.E., Registrar of the University, and Lieut.-Col. D. V. Hill, M.A.

Midland Bank not to Contract Out

THE Midland Bank has decided that no members of its permanent pensionable staff shall be contracted out of the Government's graduated pension scheme and accordingly they will participate in the scheme when it comes into operation in April 1961. The bank pension rights of the staff will remain unaffected.

The main reasons for this decision, which has been the subject of consultation with the representatives of the Bank's Staff Association, are as follows:

- (1) Men earning up to nearly £11 a week and women earning up to nearly £10 a week will pay less in total to the State scheme if they participate.
- (2) Those earning more than the above figures will pay more in total if they participate, but the additional contributions amount to a *maximum* of only a few shillings a week and it is felt that the staff will be prepared to make these extra small payments for increased benefits, especially as the Bank pensions are non-contributory.
- (3) It is considered that employees should be in the State scheme from the start as this is only a first step by the State to provide pensions related to earnings.
- (4) The Act provides for increases in basic contributions to take place in subsequent years. For employees earning more than £15 a week the increases will be the same whether they are contracted out or not, but for those earning less than £15 a week they will be greater if he or she is contracted out.

Consideration is now being given to arrangements whereby the accrued pension rights of members of the staff under the bank's own schemes may be made transferable or preserved on a change of employment.

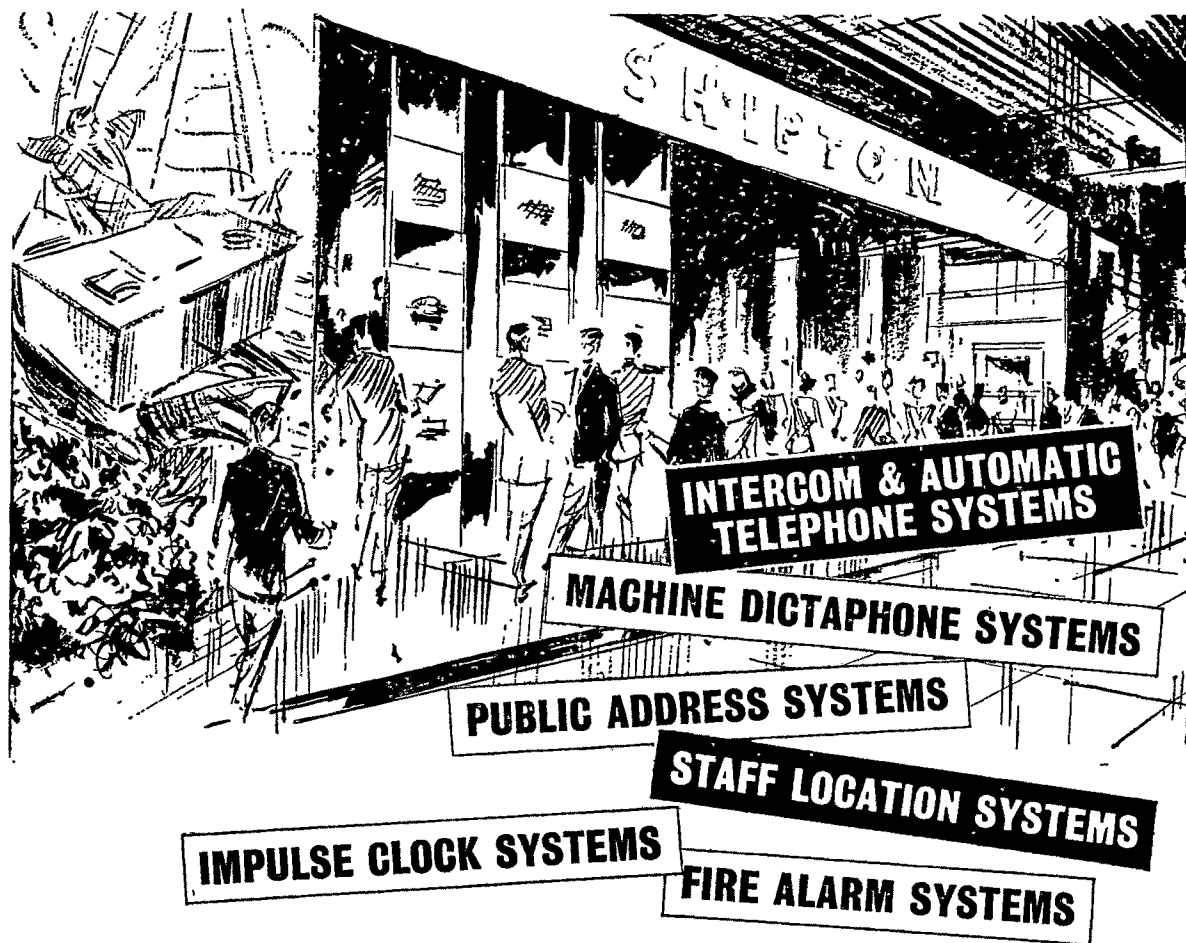
Emoluments

GUESSING the remuneration of directors in public companies is a fairly popular diversion. By law the total remuneration paid to directors has to be shown in company accounts and these include all fees, payments as executives and contributions to pensions funds. The simple task of dividing the total remuneration shown by the number of directors and listing a cross-section of well-known public companies is an exercise which many have no doubt thought they would undertake some time* but few have actually done so. It has now been done in *The Financial Times* which recently published an article on the remuneration of top directors and gave a list of the total emoluments and average emoluments of directors in twenty-five well-known public companies of differing sizes.

The differences of the companies at the top of the table and those at the bottom were very large indeed. They varied from over £29,000 a year to just over £7,000 a year. These results emphasize two points in particular. First, that there is no recognized level of remuneration at the top in industry and that the level of total emoluments is not directly connected with the size of a company or degree of responsibility. Second, great care has to be taken in analysing the results. There are big differences in total average emoluments for directors but there are probably even larger differences in the

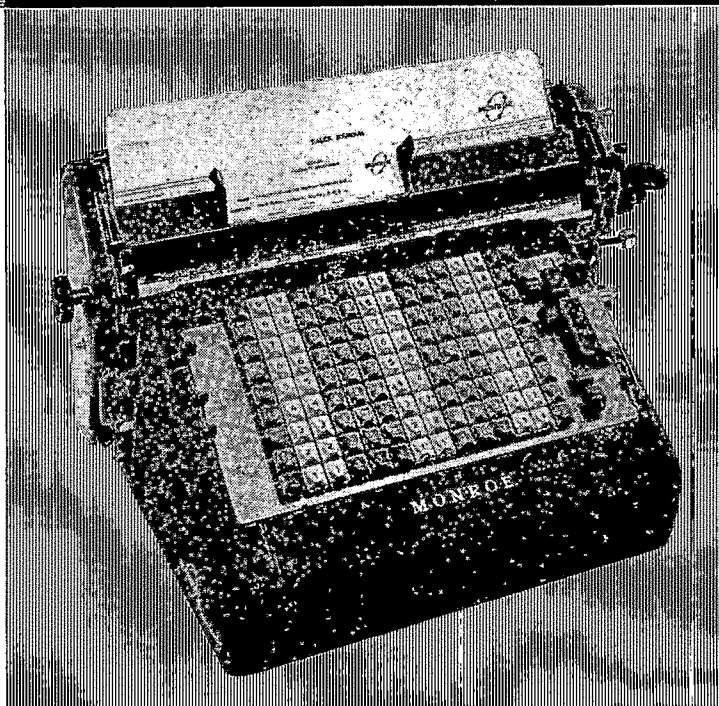
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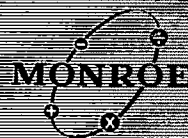


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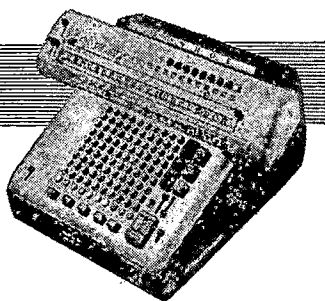
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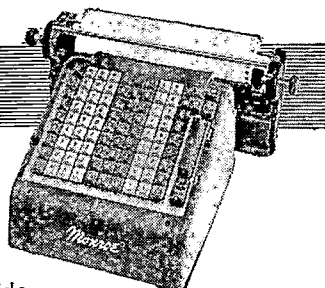
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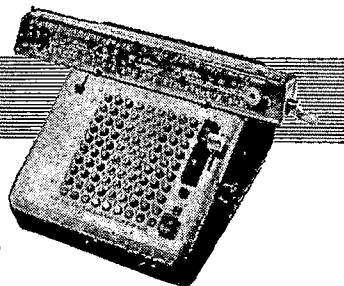


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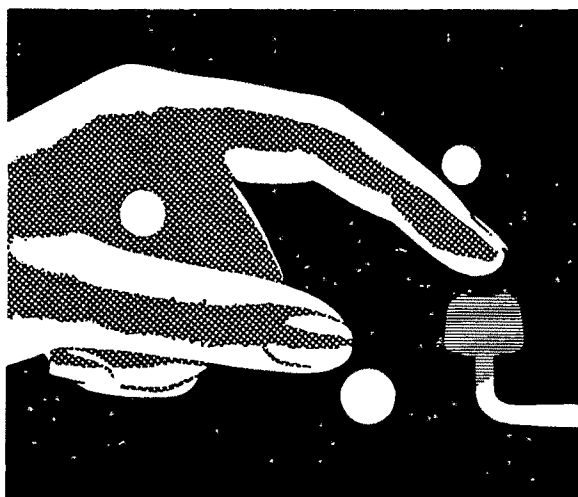
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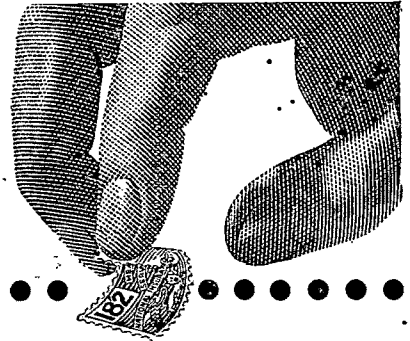
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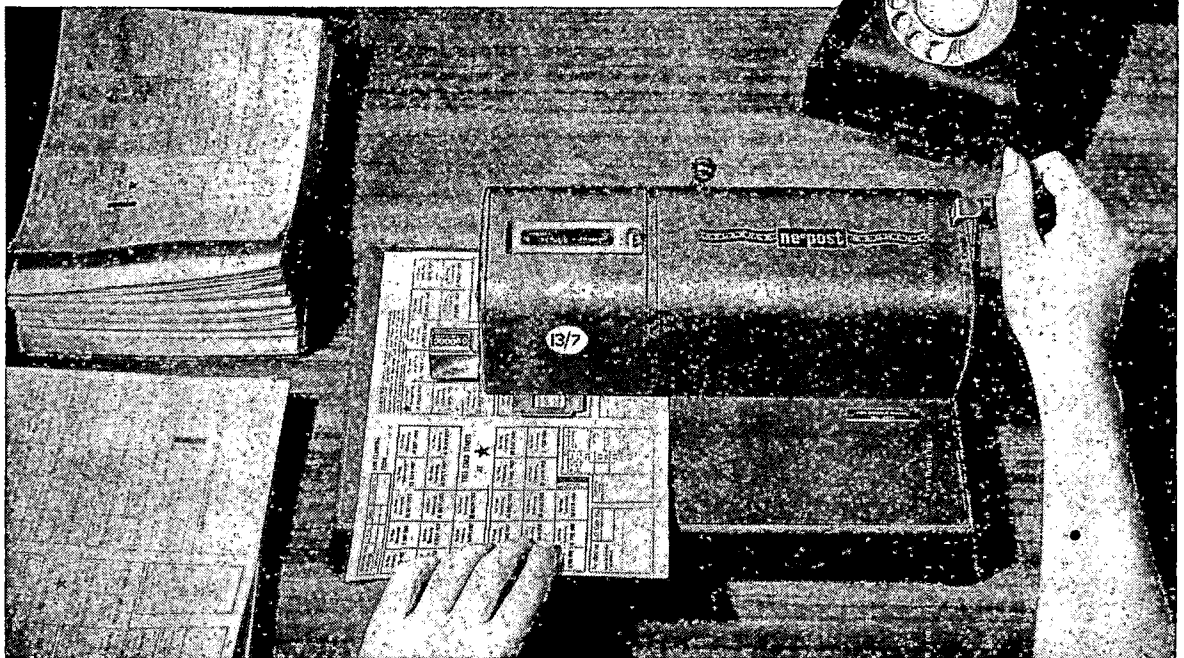
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proportion of the total emoluments to directors which take the form of salary and fees. In these days of high taxation one of the biggest attractions which a highly-paid executive can secure from his company is a liberal top-hat pension scheme. There are in addition a number of fringe benefits, all of which receive a great deal of publicity and all of which are carefully scrutinized by the Inland Revenue.

Tables of this kind are interesting but they have

to be used with circumspection. There are many directors, notably those on a part-time basis, who make an important contribution to the running of the companies on whose boards they sit and who receive only, say, £250 to £500 per year for their services. There are also a large number of small companies, both public and private, which have much more lavish scales of emoluments than some of the largest and best known public companies.

This is My Life . . .

by An Industrious Accountant

CHAPTER 43

WHEN I was an articled clerk I was rather surprised to discover that the profession didn't exactly command the obsequious respect and deference that I felt it deserved, and the position has scarcely improved since. It is true that elderly uncles and suchlike non-commercial types used to regard me and my colleagues with some little awe and murmur while proffering largesse at Christmas: 'I suppose you're a wizard at mathematics; you must have a great brain to be an accountant', and these little tokens were graciously accepted as our due.

On the other hand, our contemporaries who chose the law or medicine regarded us with mild derision. They had amazingly long holidays; their university professors fawned on them; wealthy surgeons of international repute and barristers whose eloquence had brought them ministries or peerages, accepted them as their peers; they paraded soiled scarves or blazers as a Caesar displayed his laurels.

Where we were concerned, however, our merchant princes treated us like children. There was one of these, with a string of imposing directorships, whom I remember particularly. 'Young accountants always coming to me for jobs', he used to say. 'Not much use for them in my factories, of course. Good fitters or electricians are much more valuable.' Then he'd laugh heartily, with a noise like shifting gravel, and light a fat cigar. I used to hope he'd choke; unfortunately, he never did.

* * * *

Time passes, but the undercurrent is still the same. I was reading a blue paper-back recently, an interesting survey of modern managerial techniques; I found the author's views on accountants to be decidedly unflattering. Witness some excerpts, not necessarily the most stinging:

'It is the essence of accountancy to count the cost, and see the risks writ large. Its influence is thus

invariably in the direction of ca'canny and against risk, even when the risk is not only justified, but perhaps the only proper course for management to take. Accountancy is, indeed, taking a correct view of its functions in playing safe, since it is ill-placed and unequipped to do otherwise. The interpretations that may be deduced by accountancy from, for example, the profit and loss accounts of a department are frequently unreliable as guides to managerial action. . . .'

'Men trained as accountants sometimes fill high managerial posts in business with marked success. In such cases it is the calibre and quality of the man that is decisive rather than the nature of the view which accountancy as such affords of the business. . . .'

The book will be read by many unsophisticated students or merchants, unable to assess our profession from their own experience; they may well accept the foregoing ponderous assessments as reliable or accurate; we do not labour to justify ourselves or to display any alternative viewpoint to the public. It seems to me that the damage done to our profession by such nonsensical generalities may be substantial, and appropriate counter-measures should be considered.

After reading the above, I thought of our two leading local accountants. One is nearly exhausted by restoring to prosperity, after many years of effort, an old-established business whose proprietors had been slowly ruining it by their assorted malpractices and blunders, not least of which was their almost total inability to deduce anything from their own profit and loss account. Now the proprietors are getting the credit; the accountant blushes unseen.

The other accountant is also almost exhausted. He has only just succeeded in keeping certain avaricious clients, who deduced the wrong things too readily from their profit and loss account, from a course of action which would have led them to jail. He, too, will go unsung.

Oliver Cromwell asked Mr Lely to 'paint my picture truly like me and not flatter me at all, but remark all these roughnesses, pimples, warts, and everything as you see me'. Lely painted the warts as ordered, but he also portrayed Cromwell. The critics of our profession seem to delight in remarking the warts nowadays, but we have yet to commission an artist to do justice to our achievements.

Finance and Commerce

Thorn Electrical

THIS week's reprint of the accounts of Thorn Electrical Industries Ltd, and reports of the company's recent annual meeting, take a stage further the controversy which has arisen between the board and the insurance world on the question of 'A' non-voting ordinary shares. As stated under 'Weekly Notes' in our issue of September 3rd, the proposals for a one-for-one scrip issue of ordinary shares to ordinary holders and of 'A' ordinary to the 'A' holders failed to obtain the required 75 per cent majority at an 'A' class meeting. The state of the proxy voting was 839 with 621,795 votes and 12 - mainly insurance companies - with 394,116 votes, and there was not sufficient voting strength at the meeting materially to alter that position.

The company has been built up over the last twenty-odd years under Mr Jules Thorn and is now known for its radio and television equipment retailed under the names of 'Ferguson', 'His Master's Voice', 'Marconiphone' and 'Philco'; for its 'Atlas' lighting products and for 'Tricity' electric cookers. It is possibly not quite so well known for its products for the aircraft industry which include navigational aids.

'A' Share Problem

Undoubtedly, the 'A' non-voting share sets a problem which will take all the wisdom of the Jenkins Company Law Committee to solve - if it does. Simple prohibition is feasible but the 'A' share has been in existence long enough to give it, as it were, a vested interest.

This point has been put in recent correspondence in the Press. 'If such holders are to be granted rights over and above those paid for and agreed to', one writer said, 'then they should pay for such rights; but how many would want the rights then? They did not seem to want them in the first place. Alternatively, existing shareholders with full voting rights (for which they paid) should have equitable compensation.'

Another 'A' share supporter quotes the Table A provision that companies may issue shares with preferred, deferred or other special rights and restrictions, whether in regard to dividend, voting, etc.

The basic contention of the opponents of 'A' shares is that their issue can create a situation where holders of a minority of the equity capital can control the company. Such situations already exist, however, where a comparatively small equity stands after a preponderating amount of preference capital. Thorn

Electrical, it will be noted, has nearly as much capital in 5 per cent preference as it has in 'A' ordinary.

It has to be admitted that there is a strong public opinion against 'A' shares, but public opinion is not always logical.

Eyes Open

At the company's annual meeting held a week after the 'A' class meeting, Mr Thorn - who has given up, over the course of years, something approaching a million pounds that he has been entitled to take out of the company - was still amazed by what he felt was the inconsistency of the opposition.

Insurance companies, he said, had bought the 'A' shares at 'a considerably lower price' and they knew the shares were non-voting. He maintained they had had a very good deal and had made 'a lot of money'. If the insurance companies did not like 'A' shares without votes, all they had to do was not to buy them. It all seemed very peculiar to him, especially when some insurance company capital was actually in 'A' shares.

Mr Thorn admitted that legislation was advocated for the giving of votes to 'A' shares but he thought this was ridiculous. It was no concern of the Government if someone sold 'A' shares. It was, he maintained, in effect, merely a matter between the company that issued them and the people who put their money into them. And, he emphasized, the opposition came from institutional investors who bought the 'A' shares with their eyes wide open.

Preserving Capital

AN instance of what can be done with capital is seen in the resolutions put before an extraordinary general meeting of Homfray & Co Ltd, one of the largest carpet manufacturers in the country. Basically, their purpose was to put the ordinary capital into shape for a marketing of the shares. The company already has its 4½ per cent redeemable cumulative first preference shares quoted.

The first thing was to subdivide the £1 ordinary, issued and unissued, to 5s denomination. The second resolution took the 202,337 £1 shares resulting from the redemption of that number of the redeemable preference and turned them into ordinary of 5s denomination.

Then came a capitalization from reserves and profit and loss account to give four 5s ordinary shares to holders of every three £1 ordinary on the day before the extraordinary meeting.

The particular point is the re-use of redeemed preference capital in the form of ordinary shares. There is, however, something to be learned in the setting out of resolutions to effect changes in capital structure, and student readers might do well to include the formulation of such resolutions in their general reading.

THORN ELECTRICAL INDUSTRIES LIMITED

BALANCE SHEETS (pages 391-392)			
1. SHARE PREMIUM ACCOUNT			
Balance at 31st March, 1959	Company	Group	
Add Premium of 20s. per share on issues of Ordinary Shares at 25s. per share (including 32,750 Ordinary Shares issued to Directors and Employees)	.. ..	£1,408,554	
Less: Expenses of Issue	£2,212,270		
	116,644		
	2,095,626	2,095,626	
	£3,504,180	£3,504,180	
2. GENERAL RESERVE			
Balance at 31st March, 1959	.. ..	£2,150,000	£2,164,418
Add: Surplus realised on sales of shares in Subsidiary Companies and other non-trading transactions	.. ..	1,336,264	1,348,374
Add: Transfer from Profit and Loss Account	.. ..	750,000	750,000
		£4,236,264	£4,262,792
3. FUTURE TAXATION			
Estimated Income Tax Liabilities 1960-61	.. ..	£389,250	£817,327
Tax deferred by Capital Allowances, including £543,000 representing over-provisions in earlier years of a Subsidiary Company arising from a retrospective adjustment of capital allowances	.. ..	30,000	594,500
		£319,250	£1,411,827
4. ESTIMATED CAPITAL COMMITMENTS			
March, 1960	.. ..	£75,000	£290,500
March, 1959	.. ..	£30,000	£498,000
5. CONTINGENT LIABILITIES			
(a) Guarantees	.. ..	£231,400	£3,324
Guarantees in respect of Bank advances to Subsidiary Companies (1959)	.. ..	£256,400	£21,644
(b) Bills discounted (1959)	.. ..	£111,206	£146,666

• CITY NOTES

TAKING its cue from Wall Street, which recently had its worst day for five years, the London market has experienced a heavy shake-out this past week. While tension on the international political front has been the most obvious cause of easier markets, there are other factors nearer home which are equally obviously being taken into account.

Up to three weeks ago the equity sections were arrogantly firm, despite the need for caution emphasized by most leading stockbroking firms and by other market commentators. An optimistic market was content to ignore the dangers inherent in unsatisfactory trade figures and in the potential impact of the credit squeeze.

The August trade figures were certainly nothing to get excited about even if they were slightly better than July's. In the past two weeks there has been ample evidence in the results of companies such as Kenwood and Vactric and in the news of short-time working in the motor industry that the credit squeeze, light as it is, is working strongly.

When a market turns a blind eye to obviously bearish influences and can only be buoyed up by vague talk of long-term growth, then it is clearly at a dangerous pitch. The shake-out since the near-peak established at the beginning of the last stock-market account has been accompanied by a fair degree of selling pressure in the latter stages.

Meanwhile, new issue pressure continues to build up and the change in investment temper is evident in the better support now being given to new fixed interest stock offers.

RATES AND PRICES

Closing prices, Wednesday, September 21st, 1960

Tax Reserve Certificates: interest rate (29.6.60) 3½%

Bank Rate

Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%
May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%

Treasury Bills

July 15	£5 10s	2.49d%	Aug. 19	£5 11s	8.78d%
July 22	£5 9s	9.27d%	Aug. 26	£5 11s	9.05d%
July 29	£5 10s	10.96d%	Sept. 2	£5 11s	9.33d%
Aug. 5	£5 11s	7.17d%	Sept. 9	£5 10s	2.26d%
Aug. 12	£5 11s	5.85d%	Sept. 16	£5 10s	2.14d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	5-5½%	2 months	5½-5¾%
<i>Fine Trade Bills</i>		3 months	5½-5¾%
3 months	6½-7%	4 months	5½-5¾%
4 months	6½-7%	6 months	5½-5¾%
6 months	6½-7½%		

Foreign Exchanges

New York	2.81½-½	Frankfurt	11.73½-½
Montreal	2.73½-½	Milan	174.0½-½
Amsterdam	10.60½-½	Oslo	20.02½-½
Brussels	140.42½-½	Paris	13.79½-½
Copenhagen	19.33½-½	Zürich	12.11½-½

Gilt-edged

Consols 2½%	45	Funding 4%	60-90	88½
Consols 4%	66½	Savings 2½%	64-67	82½
War Loan 3½%	60½	Savings 3%	55-65	88½
Conversion 3½%	58½xd	Savings 3%	60-70	78½
Conversion 3½% 1969	83½	Savings 3%	65-75	71½
Exchequer 5½% 1966	97½	Treasury 2½%		43xd
Funding 3% 66-68	81½	Treasury 3½%	77-80	72½
Funding 3% 59-69	80½xd	Treasury 3½%	79-81	71
Funding 3½% 99-04	64½	Victory 4%		92½

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Management Study

SIR, - I would like to say how gratified I was to read the leading article on my book *Exploration in Management* in your issue of September 3rd. The article is delightfully complimentary on many points and where it criticizes I think the criticism is justified. It is indeed a fact that we have not finished working out the role of accountants and I agree that the subject is sketchily treated in the book. What we have done is to separate accounting from programming without fully exploring the fullness of the role of accountants.

In the last eighteen months a lot of work has been

going on in the accountancy sphere and a lot more has to be done. We are beginning to get clearer ideas, and the work will continue.

There is one point, however, to which there is no reference in the article. The separation of what we termed accounting from programming work, has involved a separation within the accounting field itself. Within programming are to be found many of the responsibilities which ordinarily go under the title of cost accounting. Thus in our programming division we employ a good sprinkling of accountants, chiefly cost accountants. I think some of those cost accountants who have transferred to our programming division would be prepared to say that in their new role they are, for the first time, in a position to do work which heretofore they tried to do to some extent unsuccessfully in an accounting role and that the new position in which they find themselves gives them a feeling of much increased effectiveness. This is by way of reply to the anxiety expressed in the article about the limitation of work for accountants implied by the analysis in my book. I do not think this is necessarily so at all.

I should like to conclude by saying that if some-

Accounting *
Data Processing *
Cash and *
Credit Control *

BY



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busiest in the show

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Exhibition
OLYMPIA
OCT. 3-15

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look into your particular problems and produce a plan for your special needs. Or, if your existing communications are so good that **TELECONOMY** cannot improve them, he will gladly tell you so. Invite the **TELECONOMY** man to call on you—from the address below or any of the 24 branches and depots throughout the country.



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AT 2002

where within the accountancy profession there are people who want to do serious research of the sort we are doing on the role of accountants, we would be very pleased to meet them and give any assistance we could.

Yours faithfully,

W. B. D. BROWN,

Chairman,

Wembley, Middx.

THE GLACIER METAL CO LTD.

Traders' Credit Forms

SIR, - The company by which I am employed has always made a practice of showing on the front of traders' credit forms both the discount deducted and the amount payable. With the introduction of the new system of clearing traders' credits, the banks are imposing certain requirements in layout and size of the forms used. In particular our own bank appears to have decided that it will not permit discount to be shown on the face of traders' credits, at least not anywhere near the amount payable.

In cases where the traders' credit is prepared as a side-by-side operation with the posting of the bought ledger, it is desirable that the two amounts should appear on the same line and close together. Since the amount payable is to be shown in a heavily ruled black 'box' there appears to be no reason why the discount should not be printed beside it, as there should be very little possibility of confusion arising.

I enclose a draft [reproduced below] of the sort of form which I think might be acceptable in many offices and should provide the banks with information in a form which would provide little opportunity for error.

This is obviously a problem which must be troubling a number of businesses and I should be grateful for the views of other readers. Most of all,

I should like to know whether anyone else has managed to convince his bankers of the desirability of discount being shown on the face of the traders' credit.

Nottingham.

Yours faithfully,

JOHN E. SARGENT.

Directors' Shareholdings

SIR, - I was intrigued to read in your issue of September 17th, in the contributed article entitled 'Are Directors Masters or Servants?' that directors are required to possess a shareholding qualification. I venture to suggest that this is not correct. Table A, paragraph 77, states, 'The shareholding qualification for directors may be fixed by the company in general meeting, and unless and until so fixed no qualification shall be required.'

Yours faithfully,

RONALD A. HALE.

Horsham, Sussex.

[Our contributor writes: Your reader raises an interesting point. Although it is true that the Companies Act does not impose an obligation on a director to hold qualification shares - other than by a subscribing director - unless the articles of the company say so, the rules of the London Stock Exchange (Rule 159 (2)), require a company seeking a quotation to have articles providing for directors to have a share qualification which must not be merely nominal.

Regulation 77 of Table A to which attention is drawn by the reader is at variance with usual company practice, since it is completely new in the respect that earlier versions of Table A required a director to hold at least one share in a company (see *Buckley on the Companies Acts*, thirteenth edition (1957), page 857).

It might have been better to have said in my article: 'Directorship is come by in two ways. . . . In both cases directors are required *in practice* to possess a shareholding qualification.'

CREDIT TRANSFER

FROMBANK

DATE

.....BRANCH

BANK CODE

DISCOUNT

AMOUNT

PER

This month we bring to the notice of our readers some of the new equipment which will be on view at the 48th National Business Efficiency Exhibition which opens at Olympia on October 3rd. With 154 firms participating it is expected to be the biggest and most outstanding display yet staged in Britain.

Calculators, Computers and Tabulators

ON show for the first time will be the *Contex 20* electrically-operated ten-key calculator and the *Hamann 500* ten-key fully-automatic electric calculator. The latter has automatic multiplication, division, back transfer, decimal point take-off and line-up and a memory bank. It gives automatic short cutting of factors in multiplication with a capacity of $9 \times 8 \times 16$.

Prices: *Contex 20*, about £60; *Hamann 500*, £245.

Office Machinery Ltd, Omal House, 169 Tottenham Court Road, London, W1. (Stands 46/57).

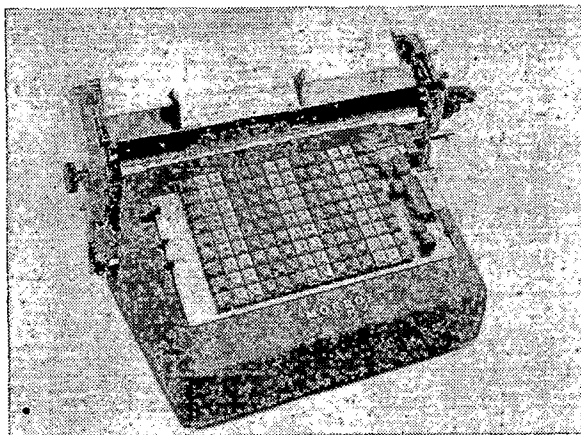
The eighty-column *I.C.T. 915 Tabulator*, capable of complete adding, cross-adding, and direct subtracting also gives automatic selection, positioning and identifying of debit and credit balances. The storage component enables information to be accepted from cards or counters and emitted to counters, print unit or card summary punch. The printing mechanism consists of 120 individually controlled, alpha numeric print wheels, capable of selective grouping, and the machine is equipped with 120 counters in twenty-eight groups with facilities for introducing sterling, weight, fractional or other wheels as required. The tabulating listing speed is 150 cards per minute.

A general-purpose electronic computer, comprising a comprehensive data-processing system is the *I.C.T. Type 1202* which has a magnetic drum storage with a capacity of 4,096 locations and uses an eighty-column punched-card input. Output is to a card-punching unit and a printing tabulator which can work simultaneously.

Prices: *915 Tabulator*: according to specification; *1202 computer*, £45,000.

International Computers & Tabulators Ltd, Gloucester House, 149 Park Lane, London, W1. (Stands 68 and 111).

The *President* is a new accounting machine that can be applied in a variety of ways. All models have a full



Monroe President Accounting Machine

New Office BUSINESS EFFICIENCY

open keyboard allowing the operator to set up amounts and reference numbers at the same time as the automatic totalling operations are performed by the machine. Inbuilt automatic controls provide great flexibility; other features are a very light touch, easy form insertion, and automatic opening and closing carriage. The machine can be supplied with one, two, three or four registers.

Prices: £350, £550, £750, and £950 respectively.

Non-standard features are obtainable.

Monroe Calculating Machine Co Ltd, Bush House, Aldwych, London, WC2. (Stand 39).

Orion is a new digital computer offering a fully transistorized system which enables complete automation to be introduced by stages. It incorporates the latest time-sharing techniques and automatic safeguards to ensure that the programmes in the computer cannot interfere with each other and that the programme in use is confined to its own part of the machine.

Price: £120,000 to £300,000 depending on the size and scope of the installation.

Ferranti Ltd, Hollinwood, Lancashire. (Stand 183).

Making its first appearance at the exhibition is the *National Elliott 803 Computer*, a versatile machine transistorized throughout and suitable for all types of business, arithmetical and statistical work. It can be plugged into the normal mains supply.

Another new-comer is the *Compu-Matic*, consisting of a *National Class 51* change computing register electrically coupled to a sterling coin dispenser. It holds nearly 700 coins in different denominations.

The *Sterling Compu-Tronic* is an all-purpose multiplying machine with an inbuilt electronic unit. After the operator has entered the factors on the keyboard it automatically and instantaneously converts the sterling amount to pence, multiplies, checks the answers and reconverts to £s, shillings and pence.

Prices: *National Elliott 803 Computer*, from £28,000; *Compu-Matic*, approx. £600; *Sterling Compu-Tronic*, £7,000.

National Cash Register Co Ltd, 206-216 Marylebone Road, London, NW1. (Stand 22/23).

An outstanding model in the *Addo* simplified keyboard range of add/listers is *Model 447-30* with two independent registers permitting a non-additive reference number to be printed together with two columns of sterling, each with its own total. *Model Addo-X 49E* is stated to be the lowest priced simplified keyboard, electronically operated add/listers of its kind available today. At the other end of the scale is *Model 354IE*, an add/listers with a multiplying unit and a storage register making it particularly suitable for calculations involving areas, percentages, discount, etc.

Advanced book-keeping is catered for by the new *Addo-X Model 734I* book-keeping and accounting

Equipment

EXHIBITION SELECTION

machine, with additional electro-magnetic digit stores attachable to the machine in units up to a total of twenty-five stores, each consisting of up to ten digits. Used in conjunction with the cross-footing register the machine can carry out analytical work. It is equipped with punched-tape output, providing tape in any desired code for computer input.

Prices: Model 447/30, £235; Addo-X 49E, £69; hand model, £49; Model 3541E, £225; Model 7341, according to size of installation.

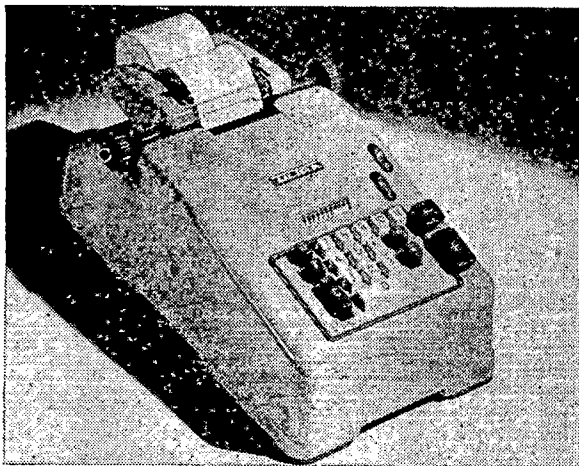
Bulmer's (Calculators) Ltd, 47-51 Worship Street, London, EC2. (Stands 95/109).

A number of additional optional devices are now available for special types of calculation on the fully automatic models of the *Madas* calculating machine. There is a range of five *Muldivo* models with advanced features such as one-hand operation and rapid back-transfer device, and the *R. C. Allen* add-listing machines include two-total models with subtraction in one register if desired.

Among the *Ultra* machines (from the Oerlikon Company in Zürich) there is a modern *Model E-10* decimal machine and a new high-speed *Ultra 804 Calculator*.

Prices: *Muldivo* models, £65 to £100; *R. C. Allen* add-listers, £49 to £175; *Model E-10* decimal (to be announced); *Ultra 804 Calculator* (to be announced).

Muldivo Calculating Machine Co Ltd, Dorset House, Salisbury Square, Fleet Street, London, EC4. (Stand 104).



The *Ultra Model E-7S* sterling add/listing machine.
Adding capacity £99,999,999 19s 11d

Form Feeds and Decollators

BY the use of the *Wilkes Ribbon Feed* attachment for *BIBM* Electric Accounting Machines 407, 420, and 421 series, legible copies up to five parts can be produced without carbons. Being powered independently,

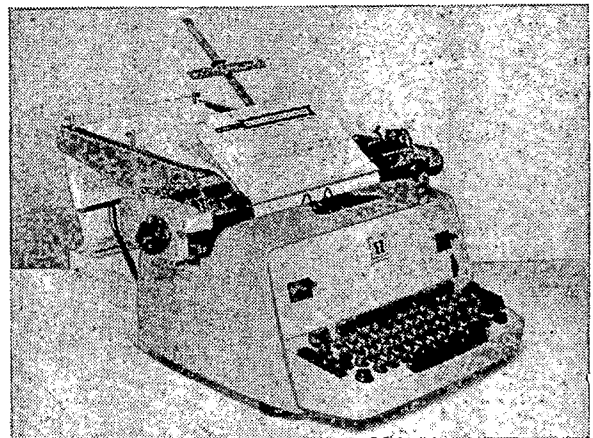
this attachment does not interfere in any way with the mechanism of the accounting machine. A *Sprocket Feeder* will introduce continuous stationery to Hollerith Tabulators 800 and 900 series and Computer Output Printers 587 and 588. Dual pinwheels and a flexible programming system ensure that a wide range of continuous form sizes and constructions are written at the maximum automatic machine speed. The *Stream-flow* system gives all standard typewriters the benefits of speedy continuous stationery and can produce fifty form sets from one carbon pocket.

James Wilkes Ltd, Bilston, Staffs. (Stands 44/59).

Exhibited for the first time is the *Underwood Minifold*, a high-speed, all-electric, continuous form machine, completely automatic in operation, eliminating all non-productive operations in the preparation of invoices, orders, requisitions and other multicopy forms.

Price: £252.

Underwood Business Machines Ltd, 4-12 New Oxford Street, London, WC1. (Stand 34).



Underwood Minifold all-electric continuous form machine

The *Reelomat* is an electronically-controlled unit for feeding a continuous web of paper to data-processing machines at the required speed. Exactly the right amount of paper will be fed in, even if the take-up is irregular or intermittent. Feed rates of up to 19½ inches per second can be achieved. A new *Multisplit* unit has been designed for the decollation of continuous multi-part stationery, *Model 500* being suitable for up to five-part sets and *Model 700* for up to seven-part sets. The forms run over a sprocket drive with margin trimmers and are then decollated and stacked, the carbons being wound up on alternate rungs for easy removal. The *Combisplit*, also a new machine, can decollate multiple sets, remove one or several copies and carbons and feed the remainder to the guillotine for separation.

Prices: *Reelomat*, £250 approx.; *Multisplit 500* and *700*, £500-£600 approx.; *Combisplit* (to be announced).

A. J. Catlin Ltd, Jasper Road, London, SE19. (Stand 174).

A remarkably versatile continuous form detacher is the new *Paragon Detacher* (guillotine model) which cuts and stacks single or multi-part forms in sizes varying from 12 inches deep to as little as ½ inch deep at a speed exceeding 5,000 sets an hour, and will take forms as

wide as 18 inches. It is a compact machine, will not operate until top cover is closed and stops automatically when forms have run out.

Price: From £600 to £700.

Lamson Paragon Ltd, Paragon Works, London, EC4. (Stand 63).

Duplicators and Printers

TWO table model duplicators are the *Ditto 9D-30* (hand operated) and *9D-31* (electrically operated). A liquid control dial is calibrated by paper sizes as well as by numbers so that the operator knows the exact amount of fluid required. Both models include a *Sure-feed* tray which accommodates varying weights of paper and automatically ensures separate single-sheet feeding; both have a top speed of two copies per second and can take any size sheet from 3 inches by 5 inches to 9 inches by 14 inches.

Prices: Model *9D-30*, £115; *9D-31*, £165.

Ditto (Britain) Ltd, 126-128 New King's Road, London, SW6. (Stand 137).

The *Gestetner 366* stencil duplicator designed for extra fine colour register, is fully automatic. It incorporates a secondary feed ensuring completely accurate registration. A jogger mechanism on the delivery tray gives perfect stacking. The *Gestefax Electronic Scanner* reproduces stencils of copy, line or half-tone drawings and photographs within minutes. When transferred to the *Duplicator* exact copies of the originals can be run off at a speed of between sixty to 120 copies a minute.

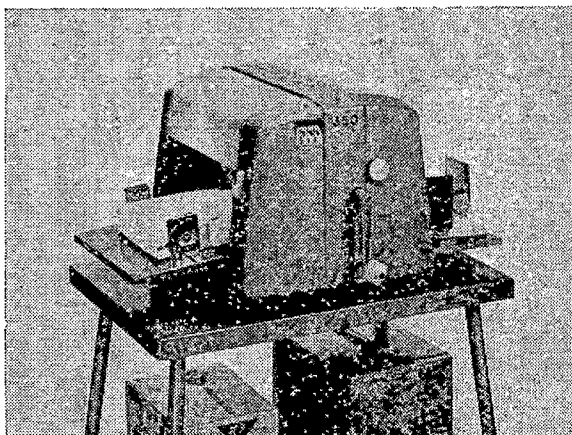
Prices: *Gestetner 366* stencil duplicator (plain cabinet), £198; (fitted drawers), £217; *Gestefax Electronic Scanner*, £600.

Gestetner Duplicators, 210 Euston Road, London, NW1. (Stand 36).



Gestetner 366 Stencil Duplicator

A fully-automatic inking system to ensure perfect printing is a feature of the latest *Roneo 750* and *350* duplicators. Fully illustrated coloured leaflets and brochures can thus be reproduced in the office on



Roneo 350 Duplicator

electronic paper introduced by Roneo. Stencils from practically any originals can be cut electronically on these machines.

Prices: Model *750*, £185; Model *350*, £105.

Roneo Ltd, 50-54 Charlotte Street, London, W1. (Stands 96/108).

Although no larger than the standard model, the new *Multilith Off-set Duplicator and Printer Model 1250 WL* can print an image up to 10½ inches wide by 16½ inches long on paper 11 inches by 17 inches. It thus covers a wide field of duplicating and printing requirements.

Price: from £1,100.

Addressograph-Multigraph Ltd, Maylands Avenue, Hemel Hempstead, Herts. (Stand 105).

A new range of *Rex-Rotary* stencil duplicators includes *Model M.4* for hand or electric operation, which embodies a patent auto-inking system ensuring clean operation and handling. For the smaller user there is the *M.2* stencil duplicator which is simpler in design of machine and mechanism but equally effective.

Prices: *M.4* electric, 75 guineas; hand, 56 guineas; *M.2*, 43 guineas.

Office Machinery Ltd, Omal House, 169 Tottenham Court Road, London, W1. (Stands 46/57).

The improved *Azoflex 150* accepts two translucent masters simultaneously. One, containing variable information, is rejected when it has reproduced the pre-set number of copies; the other, containing static information, is retained. Further variables can be fed in with perfect synchronization and adjustment. *Model 125* is a combined printing and developing machine suitable for both commercial and drawing office work. It will take translucent or opaque originals up to 18 inches wide and of any reasonable length.

For copying opaque or double-sided documents *Azoflex Transfer Foil* enables the positive image to be transferred to translucent paper for reproduction in the normal way. There are two transfer machines, *Model 592* with an 11-inch roller, and *Model 596* with a 16-inch roller.

A document *Collator* when attached to the *Azoflex Model 150* will automatically bring together twenty sets of documents.

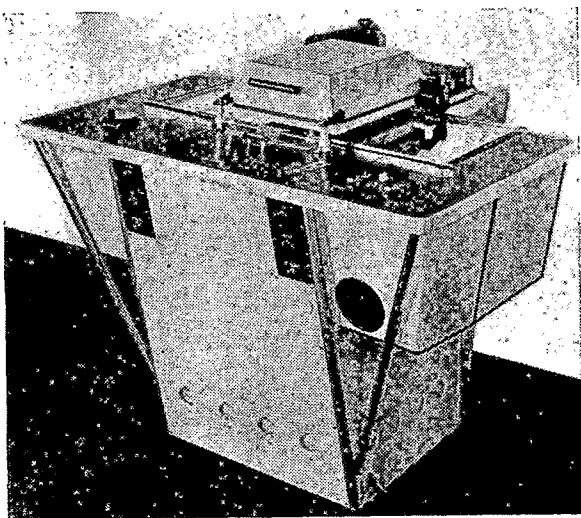
Prices: *Azoflex 150*, £2,015; *Collator*, £525; *Model 125*, £466; *Model 592*, £110; *Model 596*, £146. Machines available on a hire basis.

Ilford Ltd, Ilford, Essex. (Stand 140).

A valuable feature of the *Copycat Pacemaker* is that it can be easily moved or suspended on walls or partitions when not in use. A new model has a disposable container entirely dispensing with the handling of chemicals. The *A.S. 14* series are the first office photocopiers to offer automatic separation and stacking of originals, and automatic processing and stacking of copies. The latest version of the *Copycat Systematic* is fully automatic, giving an output of twenty or more copies per minute, while its unique *Printform* attachment eliminates the necessity for pre-printed forms.

Prices: *Copycat Pacemaker, Junior*, £99 10s; *Senior*, £138 10s; *Systematic*, £1,250; with *printform* attachment, £1,550.

Copycat Ltd, 40 Victoria Street, London, SW1. (Stands 49/54).



• *Copycat Systematic Mk. II*

The *Recordak Viewprint Processor Model 35* is a combined printer, projector and processor suitable for both 35 mm. roll film and aperture cards. The film image can be projected on to a translucent screen and a print 12½ inches by 17½ inches is processed within the machine. Within two minutes the print is produced dry and ready for use.

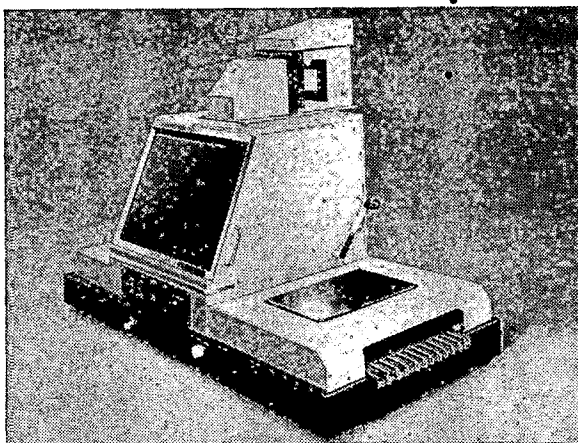
Price: £375.

Kodak Ltd, 1-4 Beech Street, London, EC1.

An important new accessory for use with the 70 mm. *Statfile Recorder* is the *Statfile Viewprint Processor Model 70*. This is a dual purpose machine which, coupled with the *Kodak 70 mm. spiral film processing outfit Model 100* and the 70 mm. film drier, makes the process of 70 mm. recording and enlarging semi-automatic. A finished print is produced within ninety seconds.

Price: £256.

Photostat Ltd, 1-4 Beech Street, London, EC1.



Kodak Statfile Viewprint Processor Model 70 mm.

Among the advantages of the *Dalcopyer* machines that are being shown for the first time are that no exposure adjustments and no negative and positive materials are required. A simple press-button action produces in seconds, with one sheet of paper, copies of photographs, half-tone illustrations, written, typed, drawn or printed documents of any colour.

Prices: £95 and £135.

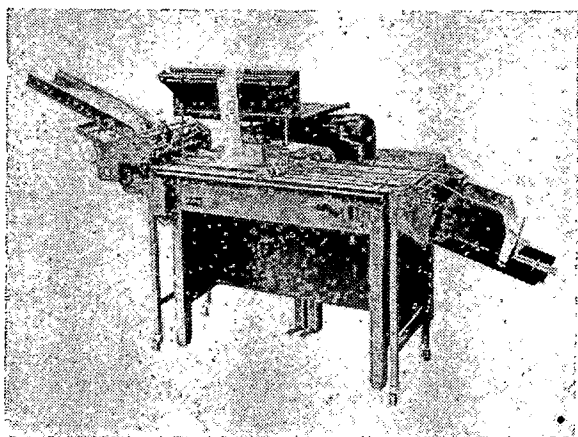
Copycat (Dalcopyer) Ltd, Queen's House, Leicester Place, London, WC1. (Stand 181).

Addressing and Data Writing

Of great interest to accountants is the *Transfer Printer, Model 831*, which introduces a new principle in mechanical addressing and data-writing, a paper master in continuous form replacing metal plates. The main function of this machine is to provide a means of addressing and imprinting unit documents from information produced initially in list form, e.g. on a punched-card tabulator. The tabulation is placed in the machine and by a transfer process is transcribed on to the unit documents. It can carry out the posting of loose-leaf ledger sheets at a speed of some 500 six-line postings per hour.

Price to be announced.

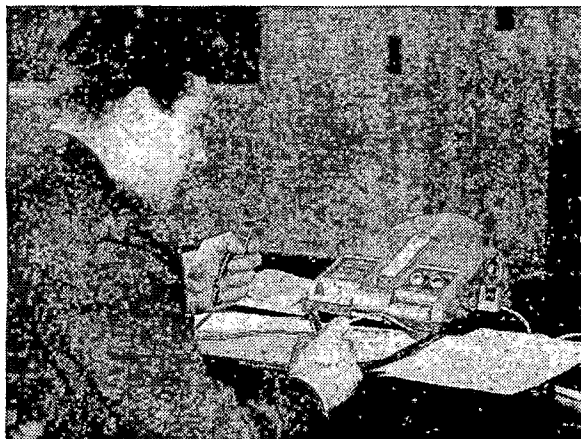
Addressograph-Multigraph Ltd, Maylands Avenue, Hemel Hempstead, Herts. (Stand 105).



Addressograph-Multigraph 831 Transfer Printer

Dictation

THE *Agavox Model C* dictating machine takes six or twelve minute plastic flexible magnetic recording discs which can be used over 20,000 times. Completely controlled from the microphone, an index strip with punched pinholes provides accurate information on length and number of letters. A telephone recording key enables conversations to be recorded whether the



Agavox Magnetic-disc Dictating Machine

controls are in the dictate or listen position. The machine can be used for recording and transcription.

Price: 95 guineas.

Agavox Dictating Machine Co, 146 New Cavendish Street, London, W1. (Stand 90).

In connection with the *Rex Recorder T.N. 5* a magnetic disc, coloured to ensure easy identification of any dictator, is now available. It has a recording time of twelve minutes, can be easily handled and changed, has many thousands of possible re-uses and is virtually unbreakable.

Price: 74 guineas including microphone.

Rex Business Machines Ltd, 170 Tottenham Court Road, London, W1. (Stand 153).

The *Omni Centradict Tele-Dictation* system is a centralized system comprising a pair of standard Grundig Stenorette machines mounted one above the other on a plinth containing a remote control apparatus. The units are connected directly to the private internal automatic exchange and use the automatic 'hunting' services available. This enables dictation to be made from any telephone on the system by dialling a pre-determined number, and each unit is controlled by a typist who can transcribe from either machine whilst the other is being used for dictation.

Price: depends on size of installation.

Office Machinery Ltd, Omni House, 169 Tottenham Court Road, London, W1. (Stands 46, 57 and 153).

Miscellaneous**Counting**

THE *Standard Totometer* counts Treasury notes at speeds of up to 900 per minute and the *Mark III Model* batches them into hundreds ready for banking. The new *Mark VII Wage Roll Dispensing Machine* can be fed with up to three hundred £1 notes; by pressing

the required number on a keyboard the number of notes for each individual employee is automatically issued.

Available on hire or may be purchased.

Universal Postal Frankers Ltd (Division of Pitney-Bowes Inc), 175-176 Tottenham Court Road, London, W1. (Stand 141).

Letter Opening and Franking

Shown for the first time in this country is a letter-opening machine, *Model L.E.*, specially designed to deal with thick envelopes in addition to ordinary mail.

Another exhibit is a new electric *Automax* postage meter, which can print any denomination of postage from $\frac{1}{2}d$ to 99s 11 $\frac{1}{2}d$ in one impression.

Available on hire or may be purchased.

Universal Postal Frankers Ltd (Division of Pitney-Bowes Inc), 175-176 Tottenham Court Road, London, W1. (Stand 141).

A range of four-post rapidly operated binders in a variety of standard sizes includes two styles chosen by the Council of Industrial Design for *Design Review* — the *Mooreweld* with heat-welded PVC covers in four colours and the *M.K.* with extra strong plastic covers and metal backs. There is a wide variety of containers, and a wide range of equipment for machine accounting.

Prices: *Mooreweld* binders, £1 2s 3d; *M.K.* binders, in nine sizes, from £2 9s 6d.

Moore's Modern Methods Ltd, 19-21 Farringdon Street, London, EC4. (Stand 32).

Stationery and Files

IN view of the State graduated pension scheme which is shortly to come into force, the re-designed *Twinlock Sheets for P.A.Y.E. systems* are of particular interest. They have been devised to meet the requirements of the new scheme and have been approved by Somerset House. The recently introduced *Summary Board*, with specially designed stationery, speeds up the work of analysing and casting. It enables items to be totalled quickly and easily with the help of a cross bar and avoids copying errors.

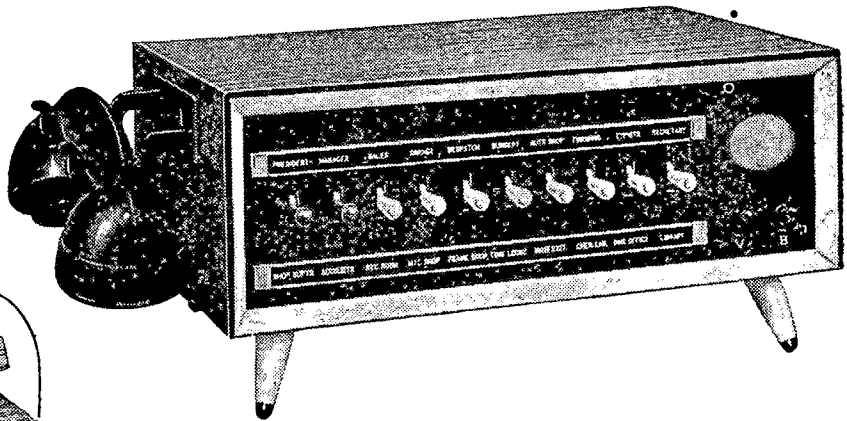
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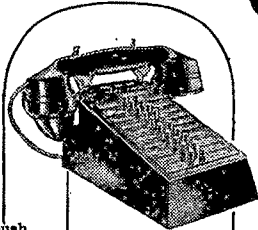


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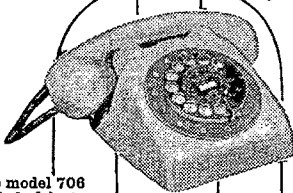


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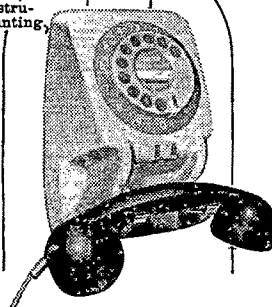
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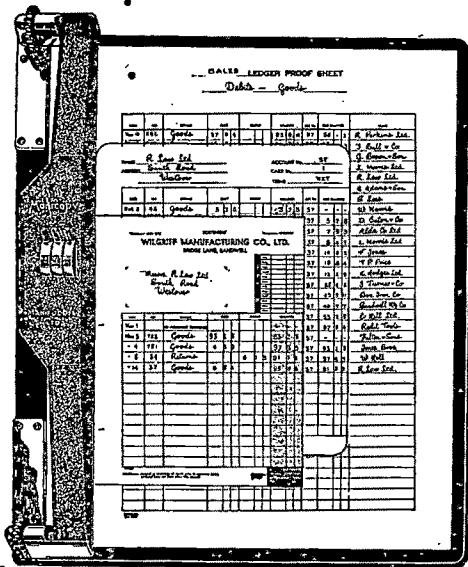


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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

SPECIAL GENERAL MEETING

A special general meeting of members of The Institute of Chartered Accountants of Scotland was held in Edinburgh on Friday of last week, when 130 applicants were admitted to membership of the Institute. Mr Alexander McKellar, C.A., President of the Institute, was in the chair.

THE PRESIDENT'S ADDRESS

In the course of an address to members, the President said:

It has become customary for the President at this September general meeting to make an interim report on the Council's stewardship of the Institute's affairs and to refer to the chief happenings since the annual general meeting in March.



Mr Alexander McKellar,

First I must mention with deep regret the death on May 8th, 1960, of Mr Charles Williamson, M.A., C.A., who was President of The Society of Accountants in Aberdeen from 1926 to 1929. Mr Williamson was the oldest practising member of the Institute and, at the time of his death in his ninety-first year, was the third oldest member of the Institute. During his long and useful life he served his profession well as a member of the Council of the Aberdeen Society, as a member of the General Examining Board, and, more recently, as the Institute's Auditor of Fees in Aberdeen.

Next, I would like to offer congratulations to those members of the Institute whose names appeared in the birthday honours list. Sir William McFarlane's knighthood gave particular pleasure to his fellow members and was a fitting recognition of his visible work as President of the Federation of British Industries.

In June The Institute of Municipal Treasurers and Accountants celebrated its seventy-fifth anniversary. Mr McDougall and I were privileged to take part in the celebrations of that event and it was particularly pleasing that it was one of our own members, Mr G. B. Esslemont, who, as President of The Institute of Municipal Treasurers and Accountants, presided over the very successful and agreeable business sessions and social functions which were held on that occasion.

I feel sure that we would all wish to take this opportunity of offering congratulations to another of our members, Mr W. S. Risk, on his election as President of The Institute of Cost and Works Accountants. Mr Risk has done much for our Institute and is well

known to many of us in this room and we wish him a happy and successful term of office.

In June Mr McDougall and I, along with representatives of many other European accountancy bodies, attended the German Institute's Accountants' Day which was held in Berlin. This was a most interesting experience and we took the opportunity of having useful and, indeed, important discussions with representatives of several other accountancy bodies.

We have just held another successful summer school at St Andrews and next month our third E.D.P. course is to be held at Troon. Although it has been said before, I will say it again - those who do not attend the summer schools and the E.D.P. courses can really have no idea of what valuable opportunities they are missing.

This year's Finance Bill was, as you all know, a most complicated one. Our Taxation Committee, which was assisted by several subcommittees drawn from different areas, submitted what seemed to me a most valuable memorandum to the Board of Inland Revenue raising a number of points on the Bill. Many of the points which we put forward were dealt with by Government amendments to the Bill and we received a most agreeable letter from the Chairman of the Board dealing in detail with our points and expressing thanks to us for having raised them.

Company Law

In recent months our main effort in the field of new legislation has been in connection with company law amendment. The memorandum of evidence which we submitted to the Jenkins Committee was reproduced in *The Accountants' Magazine* for August and in *The Accountant* (August 6th and 13th issues). That memorandum was the result of many, many hours of work and a vast number of meetings of our Company Law Committee, of a drafting subcommittee and of the Council itself. I hope that you will all read the memorandum and that, having done so, you will feel that it has not done anything to lessen the status of our Institute in the minds of the public.

As I have indicated, a good deal of hard thinking and of research went into the preparation of our memorandum to the Jenkins Committee. Efforts such as these are expected of professional bodies such as ours, and I trust that the day will never come when we shall cease to have members of the Institute able and willing to make their contribution to such tasks. It is with this thought that I particularly welcome the announcement about the John Morison Prize which accompanied the notice convening this meeting. The essay competition for this prize will, I hope, give many of our younger members an early opportunity of making their mark in Institute affairs.

Another award to which I should like to refer is that of the Institute's Gold Medal for the best candidate each year at the spring diet of Part V of the Institute's

examination (taking into account the performance in Part IV of that examination). This medal is being endowed by Mr Albert J. Watson, one of our members from California, who has already endowed the Albert J. Watson Prize. As I speak, the arrangements for the award of the Gold Medal are not yet completed but I hope that they will be so by next spring. I am sure that we are all most appreciative of this further piece of generosity on the part of Mr Watson.

Training Apprentices

The introduction of our new scheme of examination and training of apprentices has inevitably involved a great deal of work, not only in putting the finishing touches to the arrangements for the academic year and the new examination syllabus, but in dealing with the case work in respect of apprentices to whom various transitional provisions are applicable.

In April we issued fresh recommendations with regard to the remuneration of apprentices in Scotland: these were necessitated by the new scheme. In June we published a second edition of the *C.A. Apprenticeship Guide* (see *The Accountant*, June 18th, 1960, page 752). In the same month there was published the report of the Anderson Committee on Grants to Students: this report made it clear that the committee had not been disposed to go very deeply into the questions affecting apprentices and articled pupils and had regarded these as, for the most part, outwith its remit. The Council has accordingly made representations to

the Secretary of State urging that when the Government considers the Anderson Committee's recommendations it should also consider the position of apprentices and articled pupils. We understand that this will in fact be done.

It has seemed to the Council that in modern conditions it is not enough to have an up-to-date system of examination and training – action must also be taken to bring to the notice of potential recruits who are of the right quality what a career as a chartered accountant has to offer and how one can go about becoming a chartered accountant. Accordingly we have published the booklet, *Can I become a C.A.?* which we have circulated widely amongst schools. Not only so, but we are also making arrangements throughout Scotland with a view to securing increased opportunities for representatives of the Institute to talk to senior pupils.

That, I think, completes my story for today. Naturally, I have only been able to give you the highlights of a busy and interesting six months. I hope, however, that I have said enough to indicate that we on the Council, assisted by the many members who work for the Institute as members of Institute Committees and in other ways, are continuing our efforts to serve the Institute and our fellow members.

After an interval for questions, the President addressed the new members and then welcomed them individually.

Mr James C. Stewart proposed a vote of thanks to the President and this was carried by acclamation.

Notes and Notices

PROFESSIONAL NOTES

MESSRS WILSON, DAVIS & CO, Chartered Accountants, of 2 Norfolk Street, London, WC2, announce with regret the death of their senior partner, Mr BASIL JOHN DAVIS, F.C.A., on September 18th, 1960. The practice will continue to be carried on by the surviving partners under the same name as hitherto.

Appointments

Mr M. G. Brigham, M.A., F.C.A., A.C.I.I., has been appointed secretary of the Friends' Provident & Century Life Office, The Century Insurance Co Ltd, and Century Insurance Trust Ltd.

Mr Archibald Wallace, C.A., A.C.W.A., has been appointed accountant of The L. S. Starrett Co Ltd.

Mr W. R. Shepherd, A.C.A., has been appointed chief accountant of United Gas Industries Ltd.

OBITUARY

Basil John Davis, F.C.A.

It is with regret that we record the death at the age of 68, following an emergency operation last Sunday,

of Mr Basil John Davis, F.C.A., senior partner in the firm of Wilson, Davis & Co, Chartered Accountants, of London.

Following articled service with Mr Francis Atkins of Nottingham, Mr Davis was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1915. He served in the Royal Navy throughout the First World War and after demobilization in 1919, he joined Messrs Blackburns, Barton, Mayhew & Co as that firm was then known. In 1923, he became the London partner of Messrs Wilson, de Zouche & Mackenzie, and was elected to Fellowship of the Institute in 1928. He had been senior partner of Wilson, Davis & Co since 1955.

For some years Mr Davis was one of the Institute's examiners, but he will be best known, perhaps, for his active and whole-hearted support over many years of the Chartered Accountants' Benevolent Association, being a member of the Executive Committee and of the Investment Subcommittee.

Eminently fair and charitable, Mr Davis was nevertheless of a direct and forthright disposition. He

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had his own views on the vexed subject of inflation, which are on record in his book *Inflation, its Treatment in Accounts*, published in 1953.

He was also a director of The Lightfoot Refrigeration Co Ltd.

**Frederick Francis Sharles, O.B.E., F.C.A.,
F.C.I.S.**

It is with regret that we learnt of the recent death of Mr F. F. Sharles, O.B.E., F.C.A., F.C.I.S., whilst on holiday. Mr Sharles was the senior partner and founder of the firm of F. F. Sharles & Co, Chartered Accountants, of London. He was 75 years of age.

Awarded First Place and the Society's Gold Medal in the May 1912 Final examination, Mr Sharles was admitted to membership of The Society of Incorporated Accountants in the same year. He was elected to fellowship in 1913 and in 1958, following integration, he became a Fellow of The Institute of Chartered Accountants in England and Wales. He was author of several textbooks on accountancy and taxation.

Mr Sharles served in the First World War, attaining the rank of major. In the Second World War he served with the Ministry of Supply. From 1938 and throughout the war years he held the office of Consul-General for the Dominican Republic.

He was a keen swimmer and notwithstanding advancing years, it was his custom to bathe every summer. It was while swimming in the sea at Boscombe that he lost his life.

Frank Dalton Webb, F.C.A.

It is with regret that we have learned of the death of Mr Frank Dalton Webb, F.C.A., senior partner in the firm of Webb, Hanson, Bullivant & Co, Chartered Accountants, of Manchester.

Educated at Manchester Grammar School, Mr Webb was articled to his brother, the late Mr Alfred Rowley Webb, F.C.A., who was senior partner in the then firm of Webb & Hall. He was awarded a certificate of merit in the Final examination and was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1917, becoming a Fellow in 1929.

He saw service at Gallipoli during the 1914-18 war and as Lieut.-Colonel commanded the Eccles Battalion of the Home Guard during the last war. He continued his associations with the Army as chairman of the Welfare Committee of the East Lancashire Army Cadet Force. At the time of his death Mr Webb was President of the Manchester and District Ironfounders Employers' Association with which he had been actively connected for over forty years, and for over thirty years had been the secretary of the Lancashire Association of Scale and Weighing Machine Manufacturers and Repairers.

Throughout his life he was closely connected with

the affairs of the Manchester Diocese and was one of the Bishop's Nominees at the Diocesan Conference. He was also a trustee of two Salford churches, Christ Church and Stowell Memorial Church, and was the longest serving member of the executive council of the Old Mancunians' Association. He had been a member of the Manchester Society of Chartered Accountants since 1923 and a member of the Manchester Chartered Accountants' Students' Society since 1909.

INQUIRY INTO TEN COMPANIES

Mr Duncan McKellar, O.B.E., C.A., a partner in the London firm of Messrs Thomson McLintock & Co, Chartered Accountants, and Mr Malcolm John Morris, Q.C., have been appointed by the Board of Trade as inspectors to investigate the affairs of A.B.C. Coupler, Siginting (Negri Sembilan) Rubber Estate and Ratanui Rubber. Since last May, seven other companies have been named for investigation by Mr McKellar and Mr Morris.

PENSION RIGHTS

Preservation of equivalent pension rights for contracted-out employees is the title of a leaflet published by the Ministry of Pensions and National Insurance outlining conditions to be fulfilled by employers where firms have their own superannuation scheme and who have contracted out of the graduated pension scheme due to come into force next April.

The National Insurance Act, 1959, requires that equivalent pension rights for periods of contracted-out employment must be preserved for employees when their contracted-out employment ends. The employer is responsible for preserving these rights when contracted-out employment ends and must do so within a certain time. The leaflet sets out three ways in which this can be done.

The first is by means of a pension of at least the equivalent amount either in current payment or 'frozen' so as to be payable not later than age 65 (60 for women) subject to any condition as to retirement included in the recognized pension scheme.

The second is known as the 'transfer', where an employee changes to a new contracted-out employment with the pension scheme for the new employment accepting responsibility for equivalent pension rights earned in the former contracted-out employment.

The third method is known as 'payment in lieu'. It is compulsory if the rights are not satisfactorily preserved in either of the other two ways. The employer is required to pay into the National Insurance fund an amount which will secure equivalent pension rights in the graduated part of the National Insurance scheme for the period of contracted-out employment.

Copies of the leaflet, N.I.111, are obtainable from local Pensions and National Insurance offices.

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FROM *The Accountant* OF SEPTEMBER 26th, 1885
A Weekly Note

The meetings of the Council will soon be resumed after the long vacation, and we take the opportunity of mentioning one or two matters which we think should have attention. The suggested Autumnal meeting of the Institute, in one of the chief provincial towns to be decided upon, is one of these. The suggestion has been often made, and we hope that the next time it is brought up it will be decided upon, as we feel sure it will be most gratifying to the provincial members generally. The Incorporated Law Society intend, we believe, to meet at Liverpool, and the example set by the lawyers might very well be followed by the accountants. London preponderates, and probably always will preponderate, on the Council, but we think a strong effort should be made while the Institute is still in its youth, to give it a broad and national basis. The Benevolent Society is another matter which should be dealt with, and it would be satisfactory if something definite could be effected in this direction.

THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

At a recent meeting of the executive committee the chair was taken by Sir William Carrington, F.C.A., President of the Association, and seven members were present.

Applications for Assistance

Five new applications for assistance were considered; in two cases a grant was made; in one case a donation was given as an interim measure; in two cases assistance was granted towards meeting nursing home charges.

Applications for Further Assistance

Thirteen cases for further assistance were considered. In nine cases the grant was renewed; in three cases the grant was increased; in one case the grant was reduced owing to improved circumstances.

Special Fund

One application for further assistance was considered and the grant was renewed.

Christmas Food Parcels

It was decided to distribute Christmas food parcels to beneficiaries again this year.

Matters Reported

The honorary secretary reported changes in circumstances of twelve beneficiaries during the last quarter and grants were adjusted or donations made in appropriate cases.

Institute Annual Church Service

It was reported that £48 2s was collected for the Benevolent Association at the Institute's annual Church Service on July 6th, 1960.

Homes for Old People

The honorary secretary reported that he had been able, with the approval of the President, to arrange for the widow of an overseas member to enter one of Crossways Trust's homes for the infirm and for a retired member to enter a home for the able-bodied. He also reported that there was one further place still available in a home for the able-bodied.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Successful Week-end Course at Oxford

The London Students' Society's week-end course at Oxford was held from Thursday to Sunday, September 15th to 18th, at Balliol and Jesus Colleges. The number of students taking part was greater than at any previous Oxford course, but the accommodation, in two colleges for the first time, was ample for the 210 who came, and there were places still to spare.

Eighteen discussion groups were working and the exchange and clash of thought was active. Much friendly contact was created, from which both the individuals and the profession as a whole should benefit in future years.

The President of the Students' Society, Mr W. E. Parker, C.B.E., F.C.A., joined the course on Thursday, presiding at dinner in Balliol Hall that evening and in Jesus College Hall on the Friday and taking part in the meetings and discussion groups.

Amongst the guests at dinner were the President of the Institute, Mr S. John Pears, F.C.A., on the Friday, and Mr Paul F. Granger, F.C.A., Vice-President, on the Thursday. On each occasion Fellows of the college were also present.

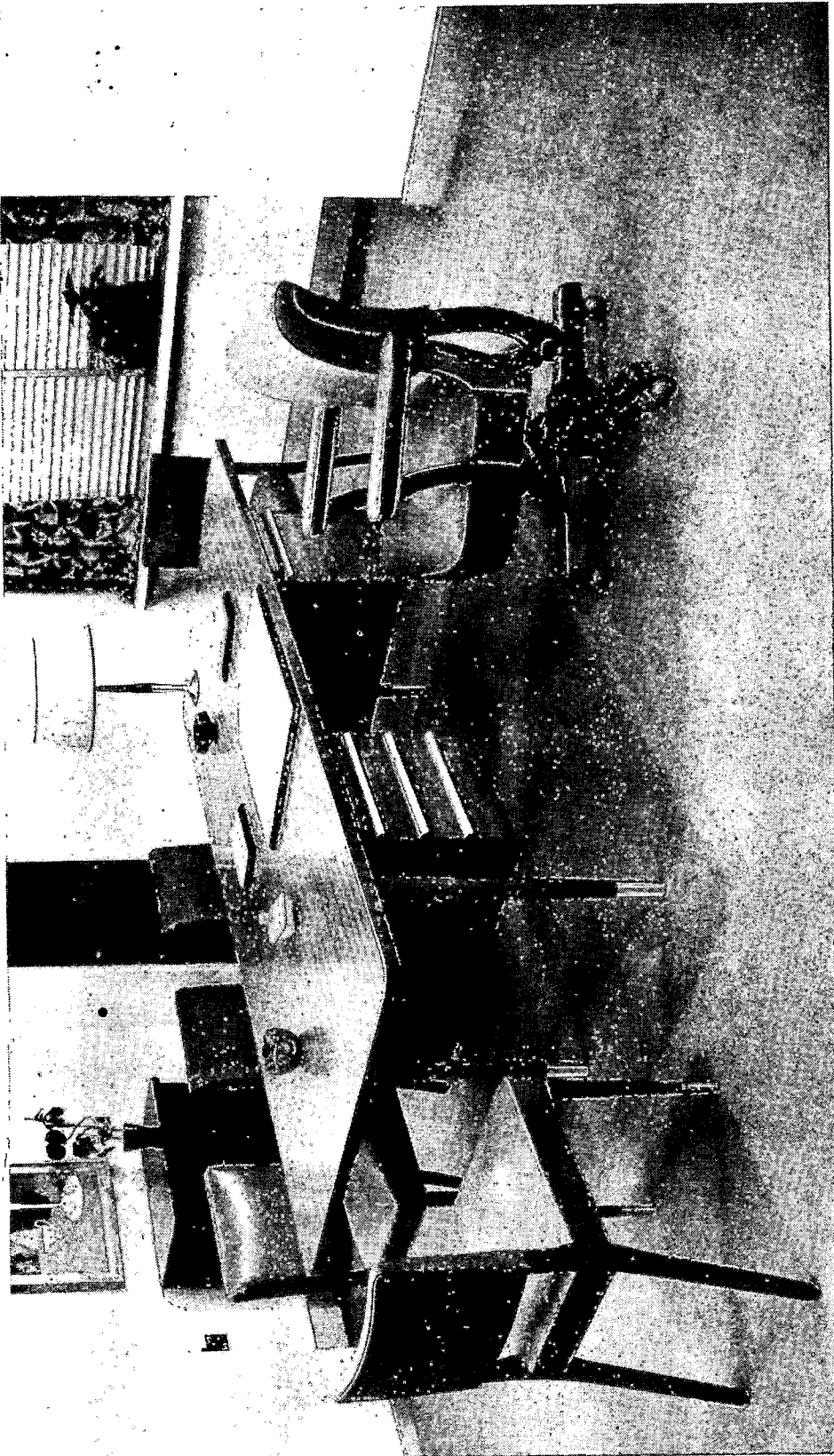
The programme included lectures on 'From auditing to management accounting', 'The future of international trade', 'Raising business capital', 'Recent developments in company law' and 'How the Inland Revenue Department administers income tax'. The whole atmosphere of the course was active and most constructive.

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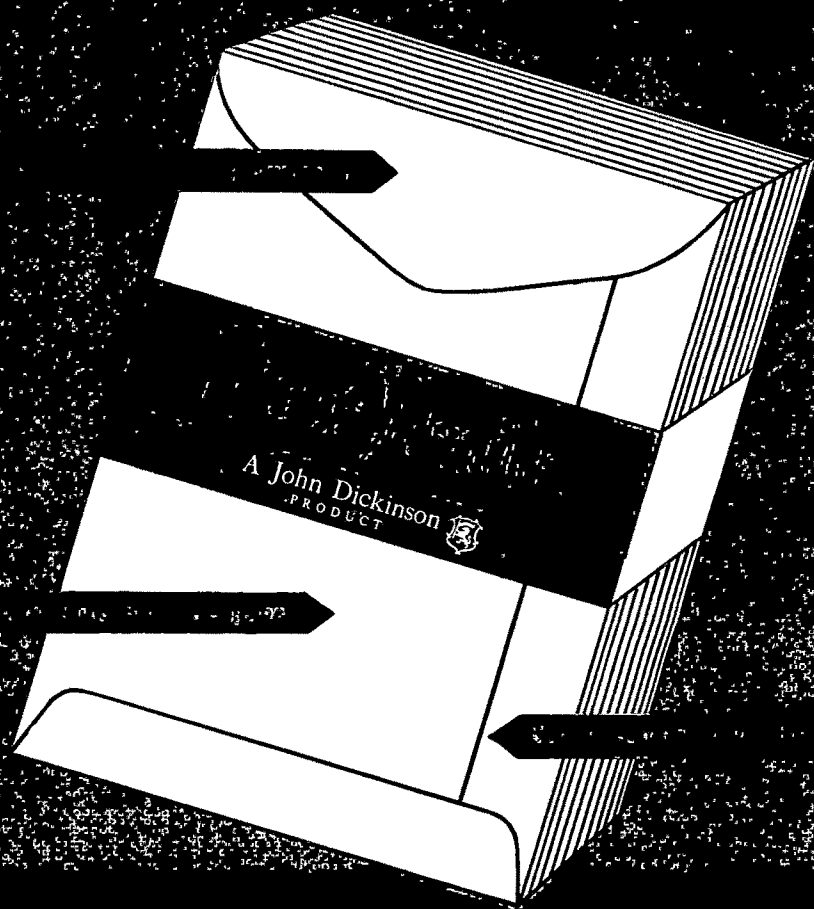


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